

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Charlotte</u>	County Eaton
Audit Date June 30, 2004	Opinion Date September 27, 2004	Date Accountant Report Submitted To State: December 15, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 1111 Michigan Avenue		City East Lansing	State Michigan
Accountant Signature 		Date December 15, 2004	



**City of Charlotte, Michigan  
Eaton County, Michigan**

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**Comprehensive Annual Financial Report  
With Supplemental Information  
Year Ended June 30, 2004**

**City of Charlotte, Michigan  
Eaton County, Michigan**

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**Comprehensive Annual Financial Report  
With Supplemental Information  
Year Ended June 30, 2004**

# City of Charlotte, Michigan

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## Contents

### **INTRODUCTORY SECTION**

Letter of Transmittal	i-viii
List of Elected and Appointed Officials	ix
Organizational Chart	x
Certificate of Achievement for Excellence in Financial Reporting	xi

### **FINANCIAL SECTION**

<b>Report Letter</b>	<b>1-2</b>
----------------------	------------

<b>Management's Discussion and Analysis</b>	<b>3-11</b>
---	-------------

### **Basic Financial Statements**

#### Government-wide Financial Statements:

Statement of Net Assets	12
Statement of Activities	13-14

#### Fund Financial Statements:

##### Governmental Funds:

Balance Sheet	15
Statement of Revenue, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17

##### Proprietary Funds:

Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20

##### Fiduciary Funds:

Statement of Net Assets	21
-------------------------	----

##### Component Units:

Statement of Net Assets	22
Statement of Activities	23

Notes to Financial Statements	24-43
-------------------------------	-------

### Required Supplemental Information

Budgetary Comparison Schedule - General Fund	44
--	----

### Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	45-46
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	47-48
Budgetary Comparison Schedules	49-56
Agency Funds:	
Statement of Changes in Assets and Liabilities	57

### **STATISTICAL SECTION**

General Government Expenditures by Function	58-59
General Government Revenue by Source	60-61
Property Tax Data:	
Property Tax Levies and Collections	62-63
Property Values and Millage Rates	64-65
Principal Taxpayers	66
Computation of Legal Debt Margin	67
Computation of Direct and Overlapping Bonded Debt	67
Ratio of Debt to Taxable Value and Debt per Capita	68
Ratio of Governmental Fund Debt Service to Total Expenditures	68
Revenue Bond Coverage	69
Miscellaneous Statistics:	
Construction and Property Values	70-71
Demographic Statistics	72
Other Statistics	73-74
Salaries and Surety Bonds of Principal Officials	75

## **Introductory Section**

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# *City of Charlotte*

*111 E. Lawrence Avenue  
Charlotte, Michigan 48813*

*517-543-2750  
Fax 517-543-8845*

September 27, 2004

To the Honorable Mayor,  
Members of the City Council,  
City Manager Dennis Stark, and the  
Citizens of the City of Charlotte

The comprehensive annual financial report of the City of Charlotte for the year ending June 30, 2004, is hereby submitted as mandated by both local ordinances and State statutes. These ordinances and statutes require the City of Charlotte to annually issue a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data as well as the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Charlotte. All disclosures necessary to enable the reader to gain an understanding of the City of Charlotte's activities have been included.

This Comprehensive Annual Financial Report (CAFR) contains different statements and information than was contained in previous CAFRs. The statements for the fiscal year ending June 30, 2004, were prepared in accordance with Statement No. 34 of the Government Accounting Standards Board (GASB #34) entitled "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." Previously, the financial statements provided information about individual funds of the City. While some of the statements in the CAFR are still on an individual fund basis, GASB #34 requires new government-wide financial statements which were prepared using accrual accounting for all government activities. These statements at the government-wide level will help readers assess the finances of the government in its entirety; determine if the City's overall financial position improved or deteriorated, and see how the City invested in capital assets. The government-wide statements are aimed at looking at the City as a whole. Also included, is a new section called Management's Discussion and Analysis which is intended to give an easily readable analysis of the City's financial performance for the year.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section, which is unaudited, includes this letter of transmittal, an organizational chart, and a list of the City of Charlotte's principal elected and appointed officials. The financial section includes the Management's Discussion and Analysis, Government-wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements, Required Supplemental Information and Other Supplemental Information., as well as the independent auditor's report on these financial statements and schedules. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.



## **THE REPORTING ENTITY AND ITS SERVICES**

The City of Charlotte is located in the heart of Michigan, 18 miles southwest of the capital city of Lansing. The City currently has a land area of approximately 5 ½ square miles and an estimated population of about 8,700. Charlotte is the hub of three interstate highways: Interstates 69, 96 and 94. These highways provide excellent access to all major markets in Michigan, the Mid-West and Canada.

Only 200 years ago, the land on which the city is located was an overgrown prairie with an abundance of wild flowers, inhabited by Chippewa and Pottawatamie Indians. Indian paths crisscrossed the area and one trail became the preferred route for early pioneers. Running from Detroit to Grand Rapids, settlers named it Clinton Trail; today it is known as state highway M-50. The pioneer settlement located in the middle of Eaton County was incorporated as a village in 1863. Railroads brought growth to Michigan and Charlotte grew as well. Charlotte was incorporated as a city in 1871. Several beautiful homes and buildings in the downtown area, which still survive today, characterize the growth of the city. E.B. Bostwick, an early landowner, held the contract for all of Eaton County and suggested the city be named for his new bride, Charlotte (pronounced Shar-LOT).

The City's most notable attributes are its outstanding schools and parks; the Eaton County government complex; the Hayes Green Beach Memorial Hospital and specialty clinics facility; and the developing Combs industrial park, which consists of 190 acres. Seven manufacturing facilities and one warehousing facility currently occupy this industrial park.

The City provides a full range of municipal services as established by statute or charter. These services include police and fire protection, water and sewer utility services, the construction and maintenance of roads, streets and infrastructures, recreational activities and general administrative services.

For financial reporting purposes, this report includes all the funds of the City of Charlotte, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City of Charlotte Downtown Development Authority (DDA) and the Local Development Financing Authority (LDFA) are reported as discretely presented component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The City's Building Authority is reported as a blended component unit. Although blended component units are legally separate, they are reported as if they are part of the primary government. The primary purpose of the City's Building Authority is to finance and construct the City's public buildings.

## **ECONOMIC CONDITION AND OUTLOOK**

The impact of the slow national economy, as well as State of Michigan budget cuts were taken into account in developing the 2004/2005 fiscal year budget. In addition, the number of full-time employees was held constant. The City Council was pro-active in using conservative budgeting practices in an effort to maintain strong fund balances.

Housing stock is being upgraded through both voluntary measures and code enforcement efforts. Thirty-seven residents, complied with or are under a compliance agreement of the City's property maintenance code. In addition, the City continues to realize economic growth through both increased residential and commercial developments. The former junior high school, located on Horatio Street, is being renovated to apartments and commercial retail space. The residential units are anticipated to be ready for occupancy by the end of 2004.



The City experienced a change in leadership during the year with the appointment of a new City Manager in December 2003 and a new Public Works Director in May 2004. In addition to these new leadership team members, the City maintains strong leadership in its other five department heads. The City's leadership team has almost 100 years of combined public service experience and is ready to solve any challenge presented.

### **MAJOR INITIATIVES**

The City is recognized as a growing and progressive community in the Lansing region and receives positive media coverage in both the Charlotte Shopping Guide and Lansing State Journal.

The City administration remains customer focused and is pro-active in meeting customer needs. The Fire and Police departments continued their outreach to the residents of Charlotte through involvement with several community functions and activities.

The City actively encourages economic development as demonstrated by the steady growth during the past ten years. Following is a discussion of some of the major development projects recently completed or planned for the future:

***Elevated Water Tank*** – Construction of a new water tank at the south end of town was completed during the year at a total cost of \$1,182,000.

***Lansing Street Water Main*** – In cooperation with MDOTs Lansing street re-construction project, a new water main was installed at a total cost of \$160,000.

***Street/Sidewalk Improvements*** – The City continued its street and sidewalk improvement program as follows:

- **Lansing Street** – Reconstruction of Seminary St. from Cochran Ave. to Sheldon St. and resurfacing of Bostwick St. from Seminary St. to Lawrence Ave., Sheldon St from Amity St. to Maple St. and Maple St. from Cochran Ave. to Sheldon St. was completed. These various projects were completed at a total cost of \$259,450
- **Sidewalks** – Sidewalk repairs totaling \$57,800 were completed during fiscal year 2003/2004. In addition, a total of \$42,300 in funds is appropriated in the 2004/2005 fiscal year budget for the construction of 13,300 sqft. of new sidewalk on the westside of High street from Amity street to Beech street.

***Youth Recreation*** – A significant effort was undertaken to invest in the youth of our community through the construction of a poured in place concrete skatepark. This new facility was completed in September 2004 at a total cost of \$376,000. A portion of this cost will be offset by \$166,000 of grant monies which the City was awarded for the construction of this project.

## **MAJOR INITIATIVES (Continued)**

***Fire Department*** – The department received a \$50,526 FEMA grant from which the funds were used to purchase various hazardous material supplies to outfit the haz-mat trailer purchased last year. The mini-pumper apparatus was purchased during the year at a cost of \$115,500. Also, 12 additional self-contained breathing apparatus were purchased in fiscal year 2004/2005.

***City Hall Building Improvements*** – The City continued with the third phase of a five-year building improvement/maintenance plan for City Hall through installation of new carpet and office equipment for the 1<sup>st</sup> floor general office.

***Information Technology*** – The City continued its routine upgrade of computer equipment through the purchase and installation of various computers, printers and software upgrades. In addition, \$12,940 was expended for the purchase of new audio equipment for the City council chambers. General fund balance designated for building maintenance was used to fund this purchase.

## **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise funds and internal service funds are maintained on the accrual basis. Fixed assets used in governmental fund type operations and long-term liabilities expected to be financed from governmental funds are accounted for at the government-wide level, not in the governmental funds.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives will be met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control is subject to periodic evaluation by management of the City and the external-independent audit staff retained by the City for required periodic audits.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Activities of the general fund and special revenue funds are included in the annual appropriated budget. Project-length budgets are prepared for capital projects funds, if any. The level of budgetary control (i.e. the level at which expenditures cannot legally exceed the appropriated amount) is the functional level within each fund.

### **GENERAL GOVERNMENTAL FUNCTIONS**

**REVENUES** and other financing sources for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$5.26 million during the fiscal year ended June 30, 2004, a decrease of 4.97% from the preceding year. The amounts received from various sources and representative percentages are shown below:

<i>Revenues and other sources</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
Taxes and assessments	\$2,533,748	48.14%	\$60,540	2.45%
Licenses and permits	124,241	2.36%	53,601	75.88%
Intergovernmental	1,725,871	32.79%	83,561	5.09%
Charges for services	273,456	5.20%	41,750	18.02%
Fines and forfeits	33,293	0.63%	4,023	13.74%
Other revenue	235,124	4.47%	(577,818)	-71.08%
<b>Total revenues</b>	<b>\$4,925,733</b>	<b>93.59%</b>	<b>(\$334,343)</b>	<b>-6.36%</b>
Other sources	337,241	6.41%	59,230	21.30%
<b>Total revenues and other sources</b>	<b>\$5,262,974</b>	<b>100.00%</b>	<b>(\$275,113)</b>	<b>-4.97%</b>

The largest source of local revenues was general property taxes, which increased from \$2.47 million in fiscal year 2002/2003 to \$2.53 million in fiscal year 2003/2004. These taxes, which include real and personal property levies, produced \$60,540 more in fiscal year 2003/2004 than in fiscal year 2002/2003 as a result of an increase in residential and commercial property. "Other revenue" had a significant decrease over the prior year because of the receipt of over \$300,000 in the prior year from the sale of city owned property.

### GENERAL GOVERNMENTAL FUNCTIONS (Continued)

EXPENDITURES and other financing uses for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$5.75 million during the fiscal year ended June 30, 2004, a decrease of 3.12% from the preceding year. Expenditures and other uses for major functions of the City are recorded as follows:

<i>Expenditures and other sources</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
General government	\$528,737	9.19%	(\$263,738)	-33.28%
Public safety	2,307,638	40.11%	(71,229)	-2.99%
Public works	1,100,758	19.13%	(870,601)	-44.16%
Recreation & culture	155,220	2.70%	(182,261)	-54.01%
Community & economic development	177,282	3.08%	137,900	350.16%
Capital outlay	1,050,552	18.26%	1,050,552	N/A
Debt Service	140,235	2.44%	(23,296)	-14.25%
<b>Total expenditures</b>	<b>\$5,460,422</b>	<b>94.91%</b>	<b>(\$222,673)</b>	<b>-3.92%</b>
Other uses and transfers	292,794	5.09%	37,625	14.75%
<b>Total expenditures and other uses</b>	<b>\$5,753,216</b>	<b>100.00%</b>	<b>(\$185,048)</b>	<b>-3.12%</b>

Beginning in fiscal year 2003/2004, the City changed the reporting categories for some of its expenditures. The decrease in General Government expenditures is due to the re-categorization of the General Fund's Economic Development department into Community and Economic Development. This re-categorization also resulted in a large increase of the Community and Economic Development category. In prior years, this category was known simply as economic development and included only the Industrial Park special revenue fund. In addition, the City began to report Capital Outlay expenditures as a separate category. This reclassification removed the capital outlay expenditures for construction of capital assets from the Recreation & Culture category to the Capital Outlay category accounting for the 54% decrease in Recreation & Culture. The 44% decrease in the Public Works category is due to the completion of significant street construction projects in the prior fiscal year.

FUND BALANCES of the General, Special Revenue, Debt Service and Capital Project Funds totaled \$2.54 million as of June 30, 2004. Total fund balance of the General Fund stands at \$1.54 million; with the Special Revenue and Debt Service Funds at \$0.99 million and \$2,250 respectively. The General Fund's unreserved-undesignated fund balance of \$1.07 million represents 23% of the General Fund's 2004/2005 fiscal year budgeted expenditures.

## **DEBT ADMINISTRATION**

The ratio of net general obligation bonded debt to assessed valuation and the amount of net general obligation bonded debt per capita are useful indicators of a municipality's debt position. This information is helpful not only to City authorities, but also to citizens and investors in City bonds. This data for the City as of June 30, 2004, is as follows:

Net general obligation debt	\$ 1,572,983
Ratio of net debt to assessed value	0.86%
Net debt per capita	\$ 188

Additional information regarding the City's debt position may be found in the Notes to the Financial Statements and in the statistical section.

## **ENTERPRISE FUNDS**

The City's enterprise operations are comprised of the water supply and sewage disposal system, and the recycling center. The primary purpose of the enterprise funds is to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs (including depreciation) of providing services to the general public on a continuing basis, be financed or recovered primarily through user charges. It is also intended, under current City Council policy, that utility rates be sufficient to make any debt service for debt incurred to replace, expand, or improve the utility system infrastructure.

The Water Supply and Sewage Disposal Fund recorded an increase in net assets of \$0.5 million for fiscal year 2003/2004. The fund had net working capital of \$271,038 and unrestricted cash and cash and investments totaling \$248,683 as of June 30, 2004.

## **RISK MANAGEMENT**

Under a comprehensive plan of risk management, the City maintains property, liability, and workers compensation insurance coverage through the Michigan Municipal League Property and Liability Pool and other commercial carriers. The City currently has self-insurance programs for employee short-term disability, eye care reimbursement, third party administered Blue Cross/Blue Shield deductible, and third party administered prescription purchase.

The City has adopted general safety policies and guidelines, with supplemental guidelines adopted by most City departments. Safety committees are in place in each department, with oversight by a general safety committee comprised of all City department heads and the manager. The committees hold training sessions, review specific risks, and review incident reports with recommendations for correction as a follow-up. City administration also holds mandatory safety and voluntary wellness programs each year.

## **CASH MANAGEMENT AND INVESTMENTS**

The City is conservative in its approach to cash management with a realization that there is a time-value to money. A high priority has been placed on procedures to ensure that all monies due the City are collected and deposited as promptly as possible. Disbursements are closely controlled and wire transfers are used whenever appropriate.

Of equal importance is the emphasis on investment portfolio management. Investments of temporarily idle funds are invested in certificates of deposit with maturities ranging from 30 to 180 days depending on when the money is needed. The City pools the cash of various funds, except in certain restricted and special accounts, to maximize interest earnings. These investments are consistent with the City's policy to minimize credit and market risk while maintaining a competitive yield on its portfolio.

## **INDEPENDENT AUDIT**

State statutes require an annual audit by independent certified public accountants. The firm of Plante & Moran, PLLC was selected by the city council to conduct the required audit.

## **AWARDS**

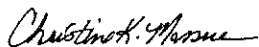
The City of Charlotte has been presented the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2003. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report will also meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for a certificate.

## **ACKNOWLEDGEMENTS**

I want to thank the Finance and Treasury department staff for their efforts in preparing this report and all the City departments for their cooperation and assistance throughout the past year. I also greatly appreciate the support extended by the City Manager, Mayor and City Council.

Respectfully submitted,



Christine K. Mossner, CPA  
Finance Director

# **City of Charlotte, Michigan**

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## **List of Elected and Appointed Officials June 30, 2004**

### City Council:

Mayor Ken Wirt

Mayor Pro-Tem Jason Vanderstelt

Trustee Floyd Burley

Trustee Judy Class

Trustee Tom Raymond

Trustee Deb Shaughnessy

Trustee James Manning

### Appointed Officials:

City Manager Dennis Stark

Fire Chief Kevin Fullerton

Assessor (Contract) Randy Jewell

Clerk Deborah Granger

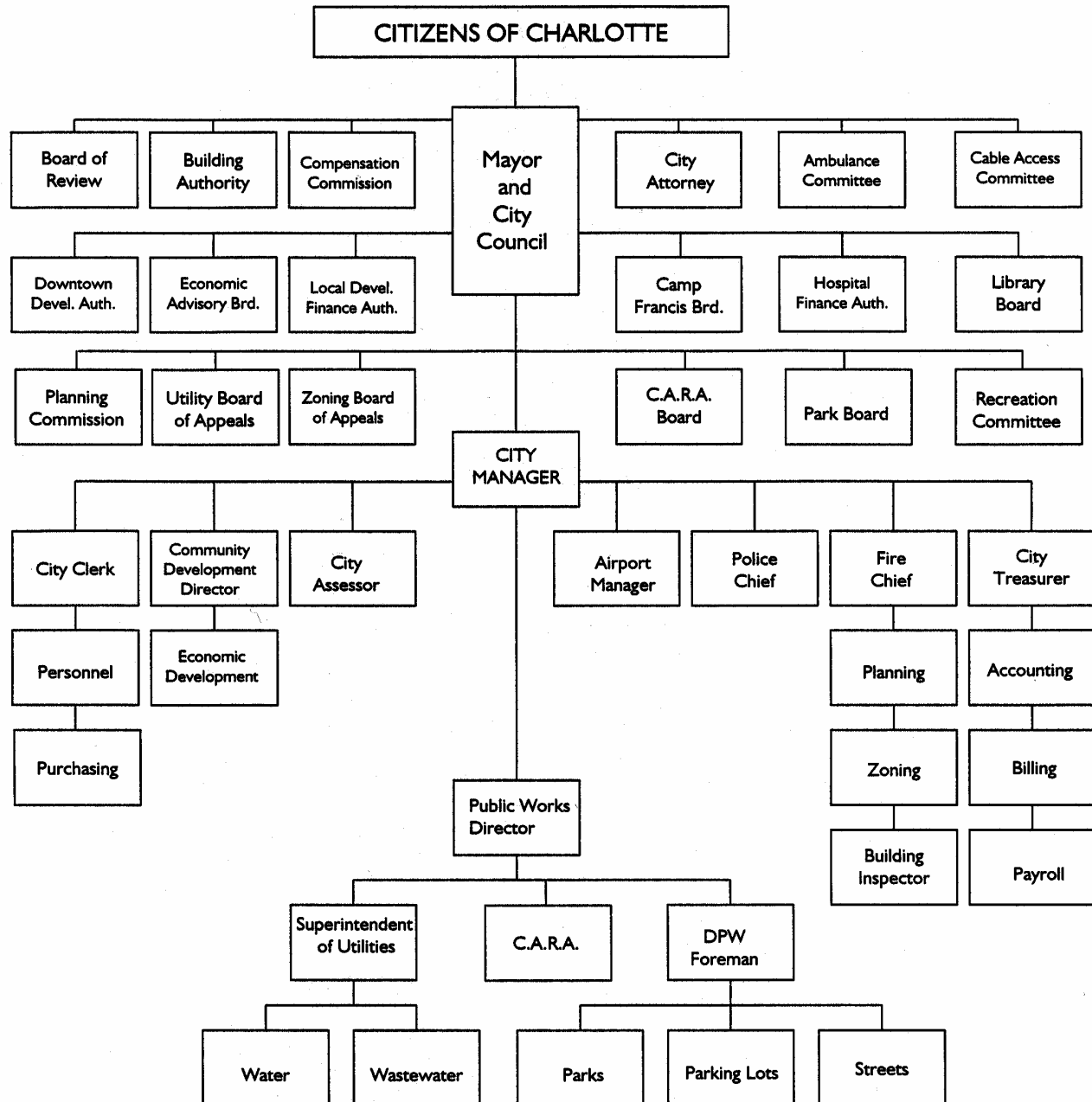
Treasurer Christine Mossner

Director of Public Works Amy Schoonover

Police Chief Bill Callahan

# City of Charlotte, Michigan

## Organizational Flowchart





**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Charlotte,  
Michigan**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

## **Financial Section**

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## Independent Auditor's Report

To the City Council  
City of Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Charlotte, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the City Council  
City of Charlotte, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The Introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As described in Note I, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

September 27, 2004

*Plante & Moran, PLLC*

# City of Charlotte, Michigan

## Management's Discussion and Analysis

The following discussion and analysis of the City of Charlotte, Michigan's annual financial report presents our view of the City's financial performance during the fiscal year that ended June 30, 2004. Please read it in conjunction with the City's financial statements, which follow beginning on page 12.

### Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31.9 million (net assets). Of this amount, \$2.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received \$8.5 million in revenues and \$8.3 million in expenses, resulting in an increase in net assets of approximately \$0.2 million. Of the City's \$8.3 million expense total, \$2.8 million related to business-type expenses and the balance of \$5.5 million related to governmental activities.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$2.5 million, a decrease of \$0.5 million from the prior year. Approximately 81.2 percent of this amount is available for spending at the government's discretion (unreserved fund balance). The remaining 18.8 percent has been reserved and/or designated.

At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$1.08 million or 23 percent of the total General Fund expenditures.

### Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the Statement of Net Assets and Statement of Activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the Balance Sheet and Statement of Revenue, Expenditures, and Changes in Net Assets/Fund Balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Overview of the Financial Statements (Continued)

The governmental fund statements tell how general government services, like public safety, were financed in the short term as well as what remains for future spending.

The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water supply and sewage disposal systems.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our non-major governmental and internal service fund.

### Government-Wide Statements

The City's government-wide statements begin on page 12 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- **Governmental Activities** - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes, state revenue sharing, and federal grants are used to finance most of these activities.
- **Business-Type Activities** - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water supply and sewage disposal systems are included in this category.
- **Component Units** - The City includes other legal entities in its report such as the Downtown Development Authority, Tax Increment Financing Authority, and Brownfield Redevelopment Authority. The City is financially accountable for these "component units" although they are legally separate entities.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The City's fund financial statements begin on page 15 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

The City has three fund types that use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the fund financial statements.
- **Proprietary Funds** - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
  - In fact, the City's enterprise funds (Water Supply and Sewage Disposal Fund, and Recycling Fund) are the business-type activities reported in the government-wide statements, but provide more detail in the proprietary funds statements
  - We use an internal service fund (the other type of proprietary fund) to report equipment rental services to the City's other programs and activities, which is reported in the Motor Vehicle Pool Fund.
- **Fiduciary Funds** - The City acts as a collection agent for certain other taxing jurisdictions such as the schools and county. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. A separate statement of fiduciary net assets is presented on page 21 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the City as a Whole

The City's combined net assets increased from \$31.7 million to \$31.9 million. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets.

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
	(in thousands)	(in thousands)	(in thousands)
Current assets	\$ 3,288	\$ 2,026	\$ 5,314
Noncurrent assets	-	-	-
Total assets	3,288	2,026	5,314
Current liabilities	422	796	1,218
Long-term liabilities	1,775	8,237	10,012
Total liabilities	2,197	9,033	11,230
Net assets:			
Invested in capital assets -			
Net of related debt	18,453	9,366	27,819
Restricted	825	918	1,743
Unrestricted	1,596	697	2,293
Total net assets	<u>\$ 20,874</u>	<u>\$ 10,981</u>	<u>\$ 31,855</u>

A substantial portion of the City's net assets (86.6 percent) reflects its investment in capital assets (e.g. land, buildings, infrastructure, vehicles, and equipment), less any related outstanding debt used to acquire those assets. Such assets are used to provide services to the citizens of Charlotte and are therefore not available for future spending.

Net assets of the City's governmental activities decreased by 1.7 percent to \$20.9 million. This decrease is due to expenses exceeding revenues which, was the result of the City expending funds on the construction of the skate park and on the purchase of property for future airport expansion.

The net assets of our business-type activities increased by 5.0 percent to \$11 million during the fiscal year. This increase is due to revenues exceeding expenses.



# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the City as a Whole (Continued)

The following table displays the City's changes in net assets. The reader should note that where prior year data is unavailable for comparisons in this fiscal year's report, there will be data in future years with appropriate discussion included.

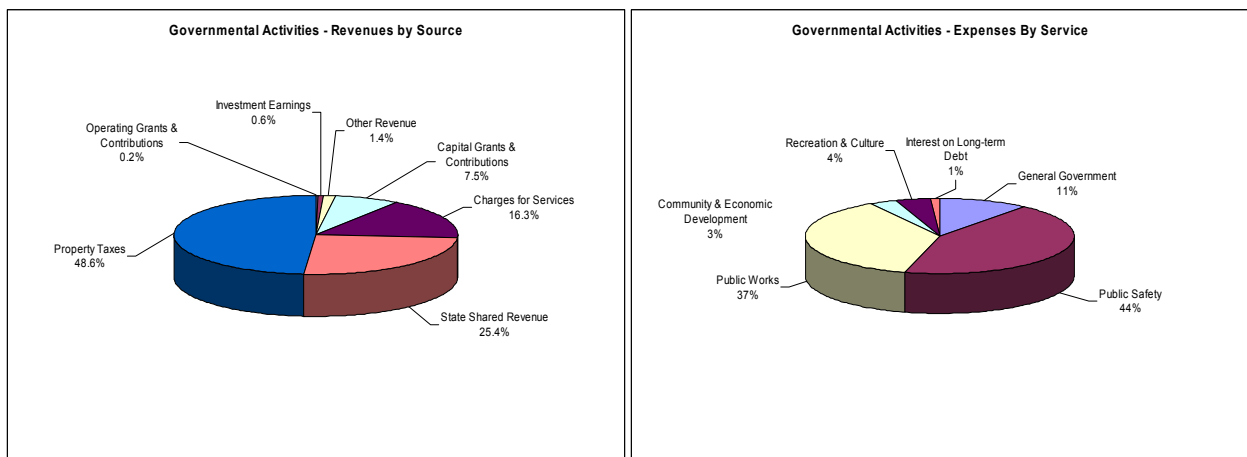
	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
	(in thousands)	(in thousands)	(in thousands)
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 834	\$ 2,884	\$ 3,718
Operating grants and contributions	12	29	41
Capital grants and contributions	385	-	385
General revenue:			
Property taxes	2,492	-	2,492
State-shared revenue	1,301	-	1,301
Unrestricted investment earnings	30	12	42
Transfers and other revenue	71	444	515
Total revenue	5,125	3,369	8,494
<b>Program Expenses</b>			
General government	593	-	593
Public safety	2,384	-	2,384
Public works	2,044	-	2,044
Community and economic development	183	-	183
Recreation and culture	224	-	224
Interest on long-term debt	65	-	65
Trash and recycling	-	56	56
Water and sewer	-	2,790	2,790
Total program expenses	5,493	2,846	8,339
<b>Change in Net Assets</b>	<b>\$ (368)</b>	<b>\$ 523</b>	<b>\$ 155</b>

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

- The cost of all governmental activities this year was \$5.5 million.
- The amount that City taxpayers paid for these activities through City taxes was \$2.5 million.
- Some of the cost (\$1.2 million) was paid by the beneficiaries of the program's activities or by other governments and organizations that subsidized certain programs with grants and contributions



**Graph 1**

**Graph 2**

- As depicted in *Graph 1*, 74 percent of the City's governmental activities revenues are comprised of property tax and state shared revenue (48.6 and 24.4 percent, respectively). The City has minimal control over either of these revenue sources. The City's ability to raise property tax revenue is limited by the levying constraints of both Proposal A and the Headlee amendment. In addition, a sluggish state economy has resulted in the reduction of state revenue sharing funds.
- As depicted in *Graph 2*, a combined 81 percent of the City's governmental activities expenses are for "public benefit" services such as fire protection, police protection, and city street maintenance and construction.

### Business-Type Activities

Operating revenues of the City's business-type activities of water supply, sewage disposal, and recycling were \$3.4 million and operating expenses were \$2.9 million resulting in net income of \$0.5 million for these operations.

# **City of Charlotte, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Financial Analysis of the City's Funds**

As the City completed the year, its governmental funds (see the balance sheet presented on page 15) reported a combined fund balance of \$2.5 million. Included in this total change is a decrease of \$0.5 million in the General Fund. The primary reasons for the General Fund's decrease include:

- State revenue sharing decreased by 3.0 percent or \$28,870 from the prior year.
- Wage increases of 3.0 percent for all union and non-union personnel.
- Payment of a \$0.3 million judgment for the purchase of airport expansion property known as the "Retzer property."

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Water Supply and Sewage Disposal Fund realized a total growth in net assets of \$0.5 million and unrestricted net assets at the end of the year of \$0.6 million. The Recycling Fund had a loss of net assets of \$11,460 for total unrestricted net assets at year end of \$41,278.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget amounted to \$350,510 or a 7.0 percent increase in appropriations. Over 97 percent of this increase is attributable to the appropriation needed to satisfy the judgment issued regarding the purchase of the airport expansion property on Island highway.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Capital Assets

At June 30, 2004, the City had invested approximately \$37.8 million in a broad range of capital assets, including police and fire equipment, buildings, computer equipment and software, parks and recreational facilities, roads, sidewalks, parking lots, and water and sewer lines. (See Table below)

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Land	\$ 1,852,296	\$ 104,995	\$ 1,957,291
Construction in progress	231,925	107,250	339,175
Infrastructure	21,997,655	-	21,997,655
Buildings and improvements	2,680,191	25,560,913	28,241,104
Vehicles	1,914,665	-	1,914,665
Equipment	2,214,861	-	2,214,861
Subtotal assets	30,891,593	25,773,158	56,664,751
Accumulated depreciation	11,108,628	7,785,427	18,894,055
Net capital assets	<u>\$ 19,782,965</u>	<u>\$ 17,987,731</u>	<u>\$ 37,770,696</u>

Construction in progress includes the skate park facility which is slated to be completed in the Fall of 2004.

### Debt

At year end, the City had \$10.2 million in bonds and notes outstanding. This represents a \$430,107 decrease from the previous year. The City incurred new debt obligations in the amount of \$128,492 during the current fiscal year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

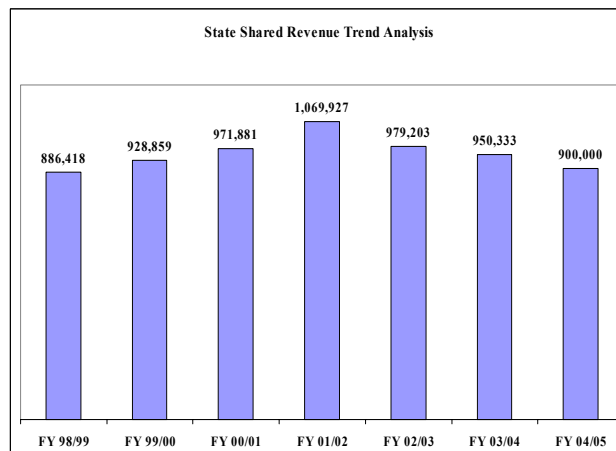
# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

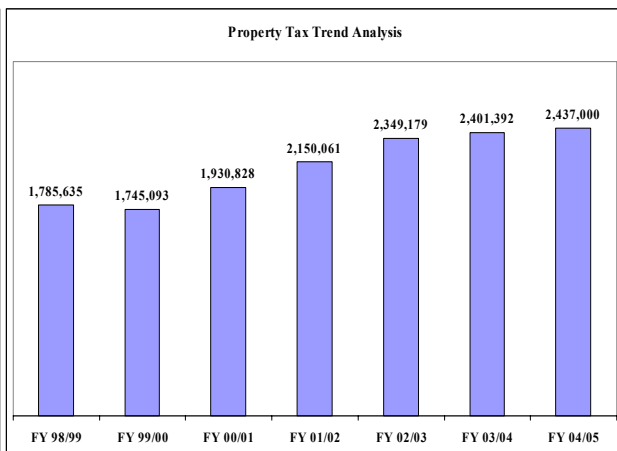
### Economic Factors and Next Year's Budget and Rates

The City's budget for the 2004 fiscal year is balanced with a property tax rate decrease of 0.2311 mills to 13.417 mills. Estimated property tax revenues are expected to increase by approximately \$35,000. As stated earlier, 74 percent of the City's General Fund revenue is comprised of property taxes and state shared revenue. As shown in *Graph 3*, the City has seen a continual drop in state shared revenue receipts since fiscal year 2001/2002. The projected 2004/2005 fiscal year budget amount is only slightly higher than what was received in fiscal year 1998/1999. This reduction in state shared revenue coupled with minimal property tax growth, as shown in *Graph 4*, has hindered the City's ability to realize revenues adequate enough to maintain current services and yet meet the demands of escalating health insurance expenditures. As a result, the City limited its capital outlay expenditures for fiscal year 2004/2005 but maintained all staffing levels and services to the public with the exception of the dunk-the-junk program.

**Graph 3**



**Graph 4**



Total expenses in the general fund for 2004/2005 fiscal year are estimated to be \$4.6 million. The public safety departments represent the single largest component of overall budget expenditures with a total estimated cost of \$2.5 million.

### Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Finance Director's office at the City of Charlotte, 111 E. Lawrence Ave., Charlotte, Michigan, 48813.

# City of Charlotte, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
<b>Assets</b>				
Cash and investments (Note 3)	\$ 2,329,127	\$ 289,593	\$ 2,618,720	\$ 473,142
Receivables - Net (Note 4)	757,106	602,427	1,359,533	837
Inventories	-	77,590	77,590	-
Prepaid costs and other assets	165,088	138,301	303,389	-
Restricted assets (Notes 3 and 8):				
Cash and investments	36,631	918,355	954,986	-
Capital assets - Net (Note 5)				
Assets not subject to depreciation	2,084,221	212,245	2,296,466	-
Assets subject to depreciation	17,698,744	17,775,486	35,474,230	-
Total assets	23,070,917	20,013,997	43,084,914	473,979
<b>Liabilities</b>				
Accounts payable	239,465	197,945	437,410	1,702
Accrued and other liabilities	89,107	212,650	301,757	-
Noncurrent liabilities (Note 7):				
Due within one year	93,881	385,000	478,881	-
Due in more than one year	1,774,578	8,237,140	10,011,718	-
Total liabilities	2,197,031	9,032,735	11,229,766	1,702
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	18,452,965	9,365,591	27,818,556	-
Restricted:				
Debt service	2,250	918,355	920,605	-
Streets and highways	780,373	-	780,373	-
Other purposes	42,025	-	42,025	-
Unrestricted	1,596,273	697,316	2,293,589	472,277
Total net assets	\$ 20,873,886	\$ 10,981,262	\$ 31,855,148	\$ 472,277

# City of Charlotte, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 592,841	\$ 233,134	\$ 2,000	\$ -
Public safety	2,384,339	220,660	-	50,526
Public works	2,043,849	380,681	9,906	179,667
Community and economic development	182,540	-	-	-
Recreation and culture	224,200	-	-	154,957
Interest on long-term debt	64,845	-	-	-
Total governmental activities	5,492,614	834,475	11,906	385,150
Business-type activities:				
Water and sewer	2,790,033	2,884,109	-	-
Recycling	55,816	-	28,711	-
Total business-type activities	2,845,849	2,884,109	28,711	-
Total primary government	\$ 8,338,463	\$ 3,718,584	\$ 40,617	\$ 385,150
Component units:				
Downtown Development Authority	\$ 14,441	\$ -	\$ -	\$ -
Local Development Financing Authority	-	-	-	-
Total component units	\$ 14,441	\$ -	\$ -	\$ -
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (357,707)	\$ -	\$ (357,707)	\$ -
(2,113,153)	-	(2,113,153)	-
(1,473,595)	-	(1,473,595)	-
(182,540)	-	(182,540)	-
(69,243)	-	(69,243)	-
(64,845)	-	(64,845)	-
<u>(4,261,083)</u>	<u>-</u>	<u>(4,261,083)</u>	<u>-</u>
-	94,076	94,076	-
<u>-</u>	<u>(27,105)</u>	<u>(27,105)</u>	<u>-</u>
-	66,971	66,971	-
<u>(4,261,083)</u>	<u>66,971</u>	<u>(4,194,112)</u>	<u>-</u>
-	-	-	(14,441)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(14,441)
2,491,783	-	2,491,783	209,198
1,301,276	-	1,301,276	-
30,308	11,856	42,164	4,687
47,825	467,153	514,978	-
23,448	(23,448)	-	-
<u>3,894,640</u>	<u>455,561</u>	<u>4,350,201</u>	<u>213,885</u>
(366,443)	522,532	156,089	199,444
<u>21,240,329</u>	<u>10,458,730</u>	<u>31,699,059</u>	<u>272,833</u>
<u><b>\$ 20,873,886</b></u>	<u><b>\$ 10,981,262</b></u>	<u><b>\$ 31,855,148</b></u>	<u><b>\$ 472,277</b></u>



# City of Charlotte, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments (Note 3)	\$ 1,296,404	\$ 913,667	\$ 2,210,071
Receivables - Net (Note 4)	523,036	233,849	756,885
Prepaid costs and other assets	157,261	1,715	158,976
Restricted assets - (Notes 3 and 8):			
Cash and investments	34,381	2,250	36,631
Total assets	<u>\$ 2,011,082</u>	<u>\$ 1,151,481</u>	<u>\$ 3,162,563</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 223,987	\$ 11,157	\$ 235,144
Accrued and other liabilities	73,851	6,368	80,219
Deferred revenue	170,580	134,528	305,108
Total liabilities	468,418	152,053	620,471
<b>Fund Balances</b>			
Reserved for:			
Debt service	-	2,250	2,250
Law enforcement	-	7,644	7,644
Prepays and other assets	157,261	-	157,261
Skate park completion	34,381	-	34,381
Unreserved, reported in:			
General Fund			
Designated for:			
Building Maintenance	51,122	-	51,122
Retiree Health Benefits	200,000	-	200,000
Tax Sharing	24,079	-	24,079
Undesignated	1,075,821	-	1,075,821
Special Revenue Funds	-	989,534	989,534
Total fund balances	<u>1,542,664</u>	<u>999,428</u>	<u>2,542,092</u>
Total liabilities and fund balances	<u>\$ 2,011,082</u>	<u>\$ 1,151,481</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	19,055,814
Special assessment and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	305,108
Accumulated employee paid-time off is recorded when earned in the statement of activities	(302,673)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,572,983)
Internal Service Funds are included as part of governmental activities	846,528
Net assets of governmental activities	<u>\$ 20,873,886</u>

# City of Charlotte, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 2,500,705	\$ -	\$ 2,500,705
Special assessments	-	33,043	33,043
Licenses and permits	124,241	-	124,241
State and local sources	954,588	570,950	1,525,538
Federal sources	200,333	-	200,333
Charges for services	273,456	-	273,456
Fines and forfeitures	33,293	-	33,293
Other	155,889	100,234	256,123
	<u>4,242,505</u>	<u>704,227</u>	<u>4,946,732</u>
Total revenue	4,242,505	704,227	4,946,732
<b>Expenditures</b>			
Current:			
General government	528,737	-	528,737
Public safety	2,297,432	10,206	2,307,638
Public works	632,550	468,208	1,100,758
Recreation and culture	155,220	-	155,220
Community and economic development	138,565	38,717	177,282
Capital outlay	899,150	151,402	1,050,552
Debt service:			
Principal retirement	-	75,000	75,000
Interest and fiscal charges	-	65,235	65,235
	<u>4,651,654</u>	<u>808,768</u>	<u>5,460,422</u>
Total expenditures	4,651,654	808,768	5,460,422
<b>Excess of Revenue Under Expenditures</b>	(409,149)	(104,541)	(513,690)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	316,242	316,242
Transfers out	(133,002)	(159,792)	(292,794)
	<u>(133,002)</u>	<u>156,450</u>	<u>23,448</u>
Total other financing sources (uses)	(133,002)	156,450	23,448
<b>Net Change in Fund Balances</b>	(542,151)	51,909	(490,242)
<b>Fund Balances - Beginning of year, as restated</b>	2,084,815	947,519	3,032,334
<b>Fund Balances - End of year</b>	<u>\$ 1,542,664</u>	<u>\$ 999,428</u>	<u>\$ 2,542,092</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Charlotte, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (490,242)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	912,881
Depreciation on general capital assets is recorded in the statement of activities; it is not recorded at the fund level	(995,837)
Loss on the sale of capital assets is recorded in the statement of activities when capital assets are sold	(23,799)
Capital contributions are recorded in the statement of activities; they are not recorded at the fund level	146,624
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(8,922)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	170,580
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	75,000
Increase in long-term debt associated with economic development grant	(128,492)
Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end	390
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(25,311)
Internal Service Funds are also included as governmental activities	685

**Change in Net Assets of Governmental Activities** **\$ (366,443)**

# City of Charlotte, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 248,683	\$ 40,910	\$ 289,593	\$ 119,056
Receivables - Net (Note 4)	602,355	72	602,427	221
Inventories	77,590	-	77,590	-
Prepays and other assets	136,866	1,435	138,301	6,112
Restricted assets (Notes 3 and 8):				
Cash and investments	918,355	-	918,355	-
Net capital assets	<u>17,987,731</u>	<u>-</u>	<u>17,987,731</u>	<u>727,151</u>
 Total assets	 19,971,580	 42,417	 20,013,997	 852,540
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	197,567	378	197,945	4,321
Accrued liabilities	211,889	761	212,650	1,691
Current portion of long-term debt	<u>385,000</u>	<u>-</u>	<u>385,000</u>	<u>-</u>
 Total current liabilities	 794,456	 1,139	 795,595	 6,012
Noncurrent liabilities:				
Long-term debt - Net of current portion	<u>8,237,140</u>	<u>-</u>	<u>8,237,140</u>	<u>-</u>
 Total liabilities	 9,031,596	 1,139	 9,032,735	 6,012
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	9,365,591	-	9,365,591	727,151
Reserved for debt service	918,355	-	918,355	-
Unreserved	<u>656,038</u>	<u>41,278</u>	<u>697,316</u>	<u>119,377</u>
 Total net assets	 <u>10,939,984</u>	 <u>41,278</u>	 <u>10,981,262</u>	 <u>846,528</u>
 Total liabilities and net assets	 <u><b>\$ 19,971,580</b></u>	 <u><b>\$ 42,417</b></u>	 <u><b>\$ 20,013,997</b></u>	 <u><b>\$ 852,540</b></u>

# City of Charlotte, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Funds
<b>Operating Revenue</b>				
Water sales	\$ 871,133	\$ -	\$ 871,133	\$ -
Sewage charges	1,751,363	-	1,751,363	-
Tap fees	261,613	-	261,613	-
Recycling fees	-	14,011	14,011	-
Charges for services	-	-	-	338,169
Other	10,801	29,752	40,553	14,500
Total operating revenue	2,894,910	43,763	2,938,673	352,669
<b>Operating Expenses</b>				
Cost of services	1,739,638	-	1,739,638	233,243
Recycling	-	55,816	55,816	-
Depreciation	567,541	-	567,541	120,322
Total operating expenses	2,307,179	55,816	2,362,995	353,565
<b>Operating Income (Loss)</b>	587,731	(12,053)	575,678	(896)
<b>Nonoperating Revenue (Expenses)</b>				
Investment income	11,263	593	11,856	1,581
Interest expense	(482,854)	-	(482,854)	-
Total nonoperating revenue (expenses)	(471,591)	593	(470,998)	1,581
<b>Income (Loss) - Before contributions and transfers</b>	116,140	(11,460)	104,680	685
<b>Capital Contributions</b>	441,300	-	441,300	-
<b>Transfers to Other Funds</b>	(23,448)	-	(23,448)	-
<b>Change in Net Assets</b>	533,992	(11,460)	522,532	685
<b>Net Assets - Beginning of year</b>	10,405,992	52,738	10,458,730	845,843
<b>Net Assets - End of year</b>	<u>\$ 10,939,984</u>	<u>\$ 41,278</u>	<u>\$ 10,981,262</u>	<u>\$ 846,528</u>

# City of Charlotte, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Funds
<b>Cash Flows From Operating Activities</b>				
Receipts from customers	\$ 2,990,871	\$ 43,805	\$ 3,034,676	\$ 338,120
Payments to suppliers	(947,482)	(35,878)	(983,360)	(144,151)
Payments to employees	(805,603)	(22,859)	(828,462)	(87,496)
Internal activity - Payments to other funds	124,719	-	124,719	-
Net cash provided by (used in) operating activities	1,362,505	(14,932)	1,347,573	106,473
<b>Cash Flows From Noncapital Financing Activities</b>				
Operating transfers to/from other funds	(23,448)	-	(23,448)	-
<b>Cash Flows From Capital and Related Financing Activities</b>				
Purchase of capital assets	(856,810)	-	(856,810)	(73,183)
Principal and interest paid on capital debt	(837,961)	-	(837,961)	-
Net cash used in capital and related financing activities	(1,694,771)	-	(1,694,771)	(73,183)
<b>Cash Flows From Investing Activities</b>				
Interest received on investments	11,263	593	11,856	1,581
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(344,451)	(14,339)	(358,790)	34,871
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>1,511,489</u>	<u>55,249</u>	<u>1,566,738</u>	<u>84,185</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 1,167,038</b></u>	<u><b>\$ 40,910</b></u>	<u><b>\$ 1,207,948</b></u>	<u><b>\$ 119,056</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 248,683	\$ 40,910	\$ 289,593	\$ 119,056
Restricted assets - Cash and cash equivalents	918,355	-	918,355	-
Total cash and cash equivalents	<u><b>\$ 1,167,038</b></u>	<u><b>\$ 40,910</b></u>	<u><b>\$ 1,207,948</b></u>	<u><b>\$ 119,056</b></u>
<b>Reconciliation of Operating Income to Net Cash From Operating Activities</b>				
Operating income (loss)	\$ 587,731	\$ (12,053)	\$ 575,678	\$ (15,396)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	567,541	-	567,541	120,322
Changes in assets and liabilities:				
Receivables	95,961	42	96,003	(49)
Other assets	144,324	(585)	143,739	148
Accounts payable	13,804	(2,491)	11,313	868
Accrued and other liabilities	(46,856)	155	(46,701)	580
Net cash provided by (used in) operating activities	<u><b>\$ 1,362,505</b></u>	<u><b>\$ (14,932)</b></u>	<u><b>\$ 1,347,573</b></u>	<u><b>\$ 106,473</b></u>

# City of Charlotte, Michigan

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## **Fiduciary Funds Statement of Net Assets June 30, 2004**

	Agency Funds
	<hr/>
<b>Assets</b>	
Cash and cash equivalents	<u><u>\$    44,595</u></u>
<b>Liabilities</b>	
Accrued and other liabilities	\$        5,000
Due to other governmental units	<u>39,595</u>
	<hr/>
Total liabilities	<u><u>\$    44,595</u></u>

# City of Charlotte, Michigan

## Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority	Local Development Financing Authority	Totals
<b>Assets</b>			
Cash and investments	\$ 50,127	\$ 423,015	\$ 473,142
Accrued interest receivable	<u>89</u>	<u>748</u>	<u>837</u>
Total assets	50,216	423,763	473,979
<b>Liabilities</b>			
Accounts payable	<u>1,702</u>	<u>-</u>	<u>1,702</u>
<b>Net Assets</b>			
Unrestricted	<u>\$ 48,514</u>	<u>\$ 423,763</u>	<u>\$ 472,277</u>



# City of Charlotte, Michigan

## Component Units Statement of Activities Year Ended June 30, 2004

	Net (Expense) Revenue and Changes in Net Assets			
		Local		
		Downtown	Development	
		Development	Financing	
	Expenses	Authority	Authority	Total
Downtown Development Authority	\$ 14,441	\$ (14,441)	\$ -	\$ (14,441)
Local Development Financing Authority	-	-	-	-
Total governmental activities	<u>\$ 14,441</u>	<u>(14,441)</u>	<u>-</u>	<u>(14,441)</u>
<b>General Revenues:</b>				
Property taxes		33,163	176,035	209,198
Interest		<u>476</u>	<u>4,211</u>	<u>4,687</u>
Total general revenues		<u>33,639</u>	<u>180,246</u>	<u>213,885</u>
<b>Change in Net Assets</b>		19,198	180,246	199,444
<b>Net Assets - Beginning of year</b>		<u>29,316</u>	<u>243,517</u>	<u>272,833</u>
<b>Net Assets - End of year</b>		<u>\$ 48,514</u>	<u>\$ 423,763</u>	<u>\$ 472,277</u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Charlotte, Michigan (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Charlotte, Michigan:

#### **Reporting Entity**

The City of Charlotte, Michigan is governed by an elected seven-member council and administered by an appointed City manager. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units** - The Building Authority is governed by a Board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

**Discretely Presented Component Units** - The following component units are reported within the component units column in the Statement of Net Assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the Component Units Statement of Net Assets.

The Downtown Development Authority was established pursuant to P.A. 197 of 1975 for the purpose of revitalizing the downtown business district. The Authority's governing body, which consists of nine individuals, is appointed by the City Council. In addition, the Authority's annual budget is subject to review and approval by the City Council. The Authority uses governmental fund type accounting. Financial statements for the Downtown Development Authority are available at the City.

The Local Development Financing Authority was established pursuant to P.A. 281 of 1986 for the purpose of developing and marketing an industrial park. The Authority's governing body, which consists of eight individuals, is appointed by the City Council. In addition, the Authority's annual budget is subject to review and approval by the City Council. The Authority uses governmental fund type accounting. Financial statements for the Local Development Financing Authority are available at the City.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes that are both measurable and available for use to finance operations are recorded as revenue when earned. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are billed on July 1 of the following year.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year-end. Interest income on special assessments receivable is not accrued until its due date.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

**Water Supply and Sewage Disposal Fund** - This fund is used to account for the operation of the City's water distribution, water treatment, sewage disposal, and sewage treatment systems; the construction and acquisition of additions and improvements to those systems; and contributions toward the payment of interest and principal on general obligation bonds issued to help finance the construction projects undertaken by this fund.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Supply and Sewage Disposal Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as a net of allowance for uncollectible amounts.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Charlotte, Michigan's water and sewer lines. Unspent contributions from the community to assist in funding the skate park construction have also been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 to 50 years
Water and sewer buildings and systems	10 to 100 years
Buildings and building improvements	25 to 50 years
Vehicles	3 years
Equipment	5 to 10 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for nonvested accumulated sick leave. All vacation pay and vested sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-Term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### Note I - Summary of Significant Accounting Policies (Continued)

**Accounting Change** - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operation has been included.
- Government-wide financial statements (statement of net assets and statement of activities), prepared using full accrual accounting for all the City's activities, including infrastructure (roads and sidewalks) have been provided.
- A change in the fund financial statements to focus in major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads and sidewalks) not previously accounted for by the City as well as assets previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.

Effective July 1, 2003, the City also implemented GASB Interpretation 6. As a result the governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end. As a result, the following changes have been made as of July 1, 2003, in the General Fund:

<b>Fund Balance</b> - Beginning of year, as previously reported in the General Fund	\$ 1,960,195
Adjustment for compensated absences	<u>124,620</u>
<b>Fund Balance</b> - Beginning of year, as restated	<u>\$ 2,084,815</u>



### Note 1 - Summary of Significant Accounting Policies (Continued)

**Determination of Beginning Net Assets** - Prior to implementation of GASB Statement No. 34, the activities of the City were reported using the modified accrual basis of accounting for its governmental activities and component units. The City now uses the full accrual basis of accounting its governmental activities and component units. In connection with the implementation of GASB Statement No. 34, the following adjustments have been made to reflect the cumulative effort of this accounting change:

<b>Fund Balances</b> - Beginning of year, as previously reported in the general, special revenue, debt service, capital project, as restated	\$ 3,032,334
Capitalization of infrastructure assets, net of accumulated depreciation	19,015,945
Inclusion of assets and liabilities of internal service funds	845,843
Recognition of long-term debt liabilities	(1,527,078)
Recognition of revenue previously earned	143,450
Recognition of expenses for compensated absences previously earned	<u>(270,165)</u>
<b>Net Assets</b> - Beginning of year, as restated	<u><u>\$ 21,240,329</u></u>

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** - Comparative data is not included in the City's financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end. Charter provisions require department head budget submissions by the second Monday in February, submission of the budget to Council by the second Monday in April, and adoption of the budget by the third Monday in May. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information; a comparison of budget to actual revenue and expenditures for all other governmental funds is reported as other supplemental information.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

The City of Charlotte, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 2,329,127	\$ 289,593	\$ 44,595	\$ 2,663,315	\$ 473,142
Restricted assets	<u>36,631</u>	<u>918,355</u>	<u>-</u>	<u>954,986</u>	<u>-</u>
Total	<u>\$ 2,365,758</u>	<u>\$ 1,207,948</u>	<u>\$ 44,595</u>	<u>\$ 3,618,301</u>	<u>\$ 473,142</u>

The breakdown between deposits for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,617,301	\$ 473,142
Petty cash or cash on hand	<u>1,000</u>	<u>-</u>
Total	<u>\$ 3,618,301</u>	<u>\$ 473,142</u>

### Deposits

The bank balance of the City's deposits is \$3,614,770, of which \$434,858 is covered by federal depository insurance and \$3,179,912 is uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluated each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$477,096, of which \$66,073 was covered by federal depository insurance and \$411,023 was uninsured and uncollateralized.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water and Sewer	Nonmajor Funds	Total
Receivables:				
Intergovernmental	\$ 453,242	\$ -	\$ 91,731	\$ 544,973
Special assessments	-	-	134,528	134,528
Accounts	67,654	601,639	5,985	675,278
Interest and other	<u>2,140</u>	<u>716</u>	<u>1,898</u>	<u>4,754</u>
Net receivables	<u>\$ 523,036</u>	<u>\$ 602,355</u>	<u>\$ 234,142</u>	<u>\$ 1,359,533</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of special assessments that are unavailable in the amount of \$134,528.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,495,561	\$ -	\$ 359,935	\$ 3,200	\$ 1,852,296
Construction in progress	-	-	231,925	-	231,925
Subtotal	1,495,561	-	591,860	3,200	2,084,221
Capital assets being depreciated:					
Infrastructure	21,851,031	-	146,624	-	21,997,655
Buildings and improvements	2,680,191	-	-	-	2,680,191
Vehicles	1,863,837	-	87,683	36,855	1,914,665
Equipment	1,952,001	-	321,021	58,161	2,214,861
Subtotal	28,347,060	-	555,328	95,016	28,807,372
Accumulated depreciation:					
Infrastructure	6,243,157	-	826,402	-	7,069,559
Buildings and improvements	1,158,262	-	54,728	-	1,212,990
Vehicles	1,104,047	-	120,322	36,855	1,187,514
Equipment	1,561,420	-	114,707	37,562	1,638,565
Subtotal	10,066,886	-	1,116,159	74,417	11,108,628
Net capital assets being depreciated	18,280,174	-	(560,831)	20,599	17,698,744
Net capital assets	<u>\$ 19,775,735</u>	<u>\$ -</u>	<u>\$ 31,029</u>	<u>\$ 23,799</u>	<u>\$ 19,782,965</u>
<b>Business-Type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 104,995	\$ -	\$ -	\$ -	\$ 104,995
Construction in progress	685,573	(685,573)	107,250	-	107,250
Subtotal	790,568	(685,573)	107,250	-	212,245
Capital assets being depreciated:					
Buildings and systems	24,770,047	685,573	1,194,242	1,088,949	25,560,913
Accumulated depreciation:					
Buildings and systems	8,303,453	-	567,541	1,085,567	7,785,427
Net capital assets being depreciated	16,466,594	685,573	626,701	3,382	17,775,486
Net capital assets	<u>\$ 17,257,162</u>	<u>\$ -</u>	<u>\$ 733,951</u>	<u>\$ 3,382</u>	<u>\$ 17,987,731</u>

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 56,583
Public safety	86,224
Public works	788,739
Community and economic development	1,294
Recreation and culture	62,997
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>120,322</u>

Total governmental activities	<u>\$ 1,116,159</u>
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Business-Type activities:

Water	\$ 92,944
Sewer	<u>474,597</u>

Total business-type activities	<u>\$ 567,541</u>
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**Construction Commitments** - The City has active construction projects at year end. The projects include the water tower renovation and the skate park project. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Water tower renovation	\$ 948,909	\$ 79,341
Skate park	<u>45,440</u>	<u>131,465</u>
Total	<u>\$ 994,349</u>	<u>\$ 210,806</u>

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Major Streets Fund	\$ 29,928
General Fund	Local Streets Fund	50,424
General Fund	Drug Enforcement Fund	750
General Fund	Police Training Fund	4,704
General Fund	Building Authority Bond Fund	47,196
Major Streets Fund	Local Streets Fund	89,604
Major Streets Fund	Michigan Transportation Bond Fund	39,474
Local Streets Fund	Michigan Transportation Bond Fund	30,714
Water Supply and Sewage Disposal	Building Authority Bond Fund	<u>23,448</u>
Total		<u>\$ 316,242</u>

The transfers from the General Fund to the Major and Local Street Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfer from the Major Streets and Local Streets Funds to the Debt Service Funds represents the movement of resources to be used to service Major Streets and Local Streets Fund debt, respectively; the transfer from the Water and Sewer Fund to the Debt Service Fund represents the movement of resources to be used to service the Building Authority debt.

### Note 7 - Long-Term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-Term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Building Authority Bonds - Series 2001 (Limited Tax General Obligation) Bonds	4% - 5.1%	2016	\$ 665,000	\$ -	\$ 40,000	\$ 625,000	\$ 40,000
Michigan Transportation Fund Bonds - Series 2001 (Limited Tax General Obligation) Bonds	4.25% - 5.3%	2017	740,000	-	35,000	705,000	40,000
Economic Development Agreement	6%	2017	114,491	128,492	-	242,983	13,881
Other long-term obligations							
Compensated absences			270,165	25,311	-	295,476	-
Total governmental activities			<u>\$ 1,789,656</u>	<u>\$ 153,803</u>	<u>\$ 75,000</u>	<u>\$ 1,868,459</u>	<u>\$ 93,881</u>
<b>Business-type Activities</b>							
County Bond Obligations -							
County of Eaton 1996 Water and Sewer Bonds	4.375% - 5.3%	2011	\$ 1,485,000	\$ -	\$ 155,000	\$ 1,330,000	\$ 165,000
Revenue bonds -							
1999 Revenue Bonds - Water Supply and Sewage Disposal System, net of discount of \$97,860	5.2% - 5.375%	2024	7,492,247	-	200,107	7,292,140	220,000
Total business-type activities			<u>\$ 8,977,247</u>	<u>\$ -</u>	<u>\$ 355,107</u>	<u>\$ 8,622,140</u>	<u>\$ 385,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 93,881	\$ 68,426	\$ 162,307	\$ 385,000	\$ 450,340	\$ 835,340
2006	94,732	72,305	167,037	405,000	430,154	835,154
2007	105,637	67,920	173,557	425,000	410,538	835,538
2008	106,597	63,068	169,665	450,000	389,964	839,964
2009	112,616	58,066	170,682	465,000	368,174	833,174
2010-2014	660,678	200,024	860,702	1,970,000	1,510,301	3,480,301
2015-2019	398,842	31,520	430,362	2,015,000	1,028,219	3,043,219
2020-2024	-	-	-	2,605,000	434,031	3,039,031
Total	1,572,983	561,329	2,134,312	8,720,000	5,021,721	13,741,721
Less: Unamortized discount	-	-	-	(97,860)	-	(97,860)
Total bonds payable	<u>\$ 1,572,983</u>	<u>\$ 561,329</u>	<u>\$ 2,134,312</u>	<u>\$ 8,622,140</u>	<u>\$ 5,021,721</u>	<u>\$ 13,643,861</u>



### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-Type Activities
Skate Park Project	\$ 34,381	\$ -
Operation and Maintenance Fund	-	256,226
Bond and Interest Redemption Fund	2,250	50,886
Bond Reserve Account	-	611,243
Total restricted assets	<u>\$ 36,631</u>	<u>\$ 918,355</u>

Skate Park Project - The City has collected contributions from the community to assist in funding the skate park construction.

Operation and Maintenance Fund - The Water Supply and Sewage Disposal System is required to maintain amounts sufficient to provide for operation and maintenance of the System.

Bond and Interest Redemption Fund - This fund represents amounts to be used for the current principle and interest due in the Water Supply and Sewage Disposal System.

Bond Reserve Account - The Water Supply and Sewage Disposal System is required to maintain amounts to be used solely for the payment of principle and interest when there would otherwise be default.

### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and error and omissions, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Defined Benefit Pension Plan**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 0.0 to 7.73 percent of gross wages for the various groups.

### Note 10 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended June 30, 2004, the City's annual pension cost of \$190,053 for the plan was equal to the City's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 8.0 investment rate of return, 4.5 percent attributable to inflation, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5 percent per year after retirement, for persons selecting certain benefit options. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

	Fiscal Year Ended June 30		
	2002	2003	2004
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 211,813	\$ 170,911	\$ 202,977
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
	Actuarial Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 9,196,384	\$ 9,354,788	\$ 9,863,004
Actuarial accrued liability - Entry age	10,166,636	10,638,049	11,821,490
Unfunded AAL	970,252	1,283,261	1,958,486
Funded ratio	90%	88%	83%
Covered payroll	2,253,421	2,266,182	2,422,496
UAAL as a percentage of covered payroll	43%	57%	81%

### Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's construction code act, including inspections of building construction and renovation to insure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for the construction code costs, including an allocation of estimated overhead costs.

A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000, is as follows:

Cumulative shortfall - June 30, 2003	\$ (322,727)
Current year building permit revenue	114,255
Related expenses	<u>(179,311)</u>
Cumulative shortfall - June 30, 2004	<u>\$ (387,783)</u>

### Note 12 - Other Post Employment Benefits

The City has elected to provide post employment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 11 retirees are eligible for post employment health benefits. For the fiscal year ended June 30, 2004, the City made payments for post employment health benefit premiums of \$72,523. The government obtains health care coverage through private insurers.

Upcoming reporting change - The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

### **Note 13 - Lincoln Park**

The City purchased a parcel of property that was previously classified as a contaminated site by the State of Michigan. The Michigan Department of Environmental Quality (MDEQ) incurred approximately \$1.2 million in clean-up costs. The State is now pursuing reimbursement from the property's previous owners who were responsible for the contamination. A liability has not been recorded in the financial statements because the City's legal counsel advises that the City has valid defenses to any contingent liability for clean-up costs and is vigorously defending this claim.

## **Required Supplemental Information**

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# City of Charlotte, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2002

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 2,084,815	\$ 1,960,195	\$ 2,084,815	\$ 124,620
<b>Resources (Inflows)</b>				
Property taxes	2,487,850	2,487,850	2,500,705	12,855
Licenses and permits	49,800	49,800	124,241	74,441
Intergovernmental	1,351,000	1,176,526	1,154,921	(21,605)
Charges for services	46,800	271,800	273,456	1,656
Fines and forfeitures	36,600	28,100	33,293	5,193
Other	137,000	146,500	155,889	9,389
Amounts available for appropriation	4,109,050	4,160,576	4,242,505	81,929
<b>Charges to Appropriations (Outflows)</b>				
General government	640,024	640,024	536,428	(103,596)
Public safety	2,576,570	2,627,096	2,550,078	(77,018)
Public works	721,789	721,789	660,542	(61,247)
Recreation and culture	582,120	924,120	753,063	(171,057)
Community and economic development	122,846	138,458	151,543	13,085
Transfers to other funds	190,625	132,997	133,002	(5)
Total charges to appropriations	4,833,974	5,184,484	4,784,656	(399,838)
<b>Fund Balance - End of year</b>	<b>\$ 1,359,891</b>	<b>\$ 936,287</b>	<b>\$ 1,542,664</b>	<b>\$ 606,377</b>

## **Other Supplemental Information**

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## **Nonmajor Governmental Funds**

**Major Street Fund** - This fund is used to control the expenditure of motor fuel taxes and trunkline maintenance funds, which are earmarked by law and the state constitution for major street and highway purposes.

**Local Street Fund** - This fund is used to control the expenditure of motor fuel taxes, which are earmarked by law and the state constitution for local street and highway purposes.

**Industrial Park Fund** - This fund is used to control the expenditure of monies earmarked for the City's industrial park.

**Police Training Fund** - This fund is used to control the expenditure of state grant monies, which are earmarked for the continued training of police officers.

**Drug Enforcement Fund** - This fund is used to control the expenditures of monies earmarked for the local D.A.R.E program.

**Building Authority Bond Fund** - This fund is used for payment of the 2001 Building Authority Bonds issued to cover \$375,000 of construction costs of a new DPW facility and renovations to the existing structure.

**Michigan Transportation Bond Fund** - This fund is used for payment of the 2001 Michigan Transportation Bonds issued to cover \$775,000 of construction costs and street resurfacing.

**Building Fund (DPW)** - This fund is used to account for the construction of the Department of Public Works building.

# City of Charlotte, Michigan

	Special Revenue Funds				
	Major Street	Local Street	Industrial Park	Police Training	Drug Enforcement
<b>Assets</b>					
Cash and investments	\$ 526,399	\$ 170,315	\$ 209,321	\$ 965	\$ 6,667
Receivables - Net	33,892	107,843	371	-	12
Prepaid costs and other assets	669	837	209	-	-
Due from other governmental units	64,642	25,889	1,200	-	-
Restricted assets					
Cash and investments	-	-	-	-	-
Total assets	<u>\$ 625,602</u>	<u>\$ 304,884</u>	<u>\$ 211,101</u>	<u>\$ 965</u>	<u>\$ 6,679</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 4,609	\$ 5,386	\$ 1,162	\$ -	\$ -
Accrued and other liabilities	3,272	2,318	778	-	-
Deferred revenue	32,627	101,901	-	-	-
Total liabilities	40,508	109,605	1,940	-	-
<b>Fund Balances</b>					
Reserved:					
Debt service	-	-	-	-	-
Law enforcement	-	-	-	965	6,679
Unreserved:					
Special revenue	585,094	195,279	209,161	-	-
Total fund balances	585,094	195,279	209,161	965	6,679
Total liabilities and fund balances	<u>\$ 625,602</u>	<u>\$ 304,884</u>	<u>\$ 211,101</u>	<u>\$ 965</u>	<u>\$ 6,679</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

Debt Service Funds		Nonmajor Capital Projects Fund	
Building Authority Bond	Michigan Transportation Bond	Building Fund (DPW)	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 913,667
-	-	-	142,118
-	-	-	1,715
-	-	-	91,731
<u>2,227</u>	<u>23</u>	<u>-</u>	<u>2,250</u>
<b><u>\$ 2,227</u></b>	<b><u>\$ 23</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,151,481</u></b>
\$ -	\$ -	\$ -	\$ 11,157
-	-	-	6,368
<u>-</u>	<u>-</u>	<u>-</u>	<u>134,528</u>
-	-	-	152,053
2,227	23	-	2,250
-	-	-	7,644
<u>-</u>	<u>-</u>	<u>-</u>	<u>989,534</u>
<u>2,227</u>	<u>23</u>	<u>-</u>	<u>999,428</u>
<b><u>\$ 2,227</u></b>	<b><u>\$ 23</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,151,481</u></b>

# City of Charlotte, Michigan

	Nonmajor Special Revenue Funds				
	Major Street	Local Street	Industrial Park	Police Training	Drug Enforcement
<b>Revenue</b>					
State sources	\$ 413,439	\$ 152,333	\$ 1,200	\$ 3,978	\$ -
Special assessments	11,280	21,763	-	-	-
Other	10,658	84,630	2,967	-	1,979
Total revenue	435,377	258,726	4,167	3,978	1,979
<b>Expenditures</b>					
Current:					
Public safety department	-	-	-	7,956	2,250
Public works department	200,942	263,265	-	-	-
Community and economic development	-	-	38,167	-	-
Capital outlay	792	147,330	3,280	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	201,734	410,595	41,447	7,956	2,250
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	233,643	(151,869)	(37,280)	(3,978)	(271)
<b>Other Financing Sources (Uses)</b>					
Transfers in	29,928	140,028	-	4,704	750
Transfers out	(129,078)	(30,714)	-	-	-
Total other financing sources (uses)	(99,150)	109,314	-	4,704	750
<b>Net Change in Fund Balances</b>	134,493	(42,555)	(37,280)	726	479
<b>Fund Balances - Beginning of year</b>	450,601	237,834	246,441	239	6,200
<b>Fund Balances - End of year</b>	<u>\$ 585,094</u>	<u>\$ 195,279</u>	<u>\$ 209,161</u>	<u>\$ 965</u>	<u>\$ 6,679</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Nonmajor Debt Service Funds		Nonmajor Capital Projects Fund	
Building Authority Bond	Michigan Transportation Bond	Building Fund (DPW)	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 570,950
-	-	-	33,043
-	-	-	100,234
-	-	-	704,227
-	-	-	10,206
-	-	4,001	468,208
275	275	-	38,717
-	-	-	151,402
40,000	35,000	-	75,000
30,345	34,890	-	65,235
70,620	70,165	4,001	808,768
(70,620)	(70,165)	(4,001)	(104,541)
70,644	70,188	-	316,242
-	-	-	(159,792)
70,644	70,188	-	156,450
24	23	(4,001)	51,909
2,203	-	4,001	947,519
<u>\$ 2,227</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 999,428</u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 450,601	\$ 450,601	\$ 450,601	\$ -
<b>Resources (Inflows)</b>				
State sources	391,900	391,900	413,439	21,539
Special assessments	10,300	10,300	11,280	980
Other	8,500	8,500	10,658	2,158
Transfer from other funds	<u>29,925</u>	<u>29,925</u>	<u>29,928</u>	<u>3</u>
Amounts available for appropriation	440,625	440,625	465,305	24,680
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Street maintenance	428,211	428,211	201,734	226,477
Transfers to other funds	<u>135,224</u>	<u>129,074</u>	<u>129,078</u>	<u>(4)</u>
Total charges to appropriations	<u>563,435</u>	<u>557,285</u>	<u>330,812</u>	<u>226,473</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 327,791</b></u>	<u><b>\$ 333,941</b></u>	<u><b>\$ 585,094</b></u>	<u><b>\$ 251,153</b></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 237,834	\$ 237,834	\$ 237,834	\$ -
<b>Resources (Inflows)</b>				
State sources	141,000	141,000	152,333	11,333
Special assessments	22,625	22,625	21,763	(862)
Other	7,000	82,000	84,630	2,630
Transfer from other funds	<u>140,026</u>	<u>140,026</u>	<u>140,028</u>	<u>2</u>
Amounts available for appropriation	310,651	385,651	398,754	13,103
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Street maintenance	399,375	474,375	410,595	63,780
Transfers to other funds	<u>24,566</u>	<u>30,716</u>	<u>30,714</u>	<u>2</u>
Total charges to appropriations	<u>423,941</u>	<u>505,091</u>	<u>441,309</u>	<u>63,782</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 124,544</b></u>	<u><b>\$ 118,394</b></u>	<u><b>\$ 195,279</b></u>	<u><b>\$ 76,885</b></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Industrial Park Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 246,441	\$ 246,441	\$ 246,441	\$ -
<b>Resources (Inflows)</b>				
State sources	1,200	1,200	1,200	-
Other	<u>5,000</u>	<u>5,000</u>	<u>2,967</u>	<u>(2,033)</u>
Amounts available for appropriation	6,200	6,200	4,167	(2,033)
<b>Charges to Appropriations (Outflows)</b>				
General government:				
Other	<u>103,255</u>	<u>103,255</u>	<u>41,447</u>	<u>61,808</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 149,386</u></u>	<u><u>\$ 149,386</u></u>	<u><u>\$ 209,161</u></u>	<u><u>\$ 59,775</u></u>



# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Police Training Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 239	\$ 239	\$ 239	\$ -
<b>Resources (Inflows)</b>				
State sources	4,000	4,000	3,978	(22)
Transfer from other funds	<u>4,700</u>	<u>4,700</u>	<u>4,704</u>	<u>4</u>
Amounts available for appropriation	8,700	8,700	8,682	(18)
<b>Charges to Appropriations</b>				
Public safety:				
Police	<u>8,700</u>	<u>8,700</u>	<u>7,956</u>	<u>744</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 239</u></u>	<u><u>\$ 239</u></u>	<u><u>\$ 965</u></u>	<u><u>\$ 726</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Drug Enforcement Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 6,200	\$ 6,200	\$ 6,200	\$ -
<b>Resources</b>				
Interest income	75	75	97	22
Other	100	100	1,882	1,782
Transfer from other funds	<u>750</u>	<u>750</u>	<u>750</u>	<u>-</u>
Amounts available for appropriation	925	925	2,729	1,804
<b>Charges to Appropriations</b>				
Public safety:				
Police	<u>750</u>	<u>2,750</u>	<u>2,250</u>	<u>500</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 6,375</u></u>	<u><u>\$ 4,375</u></u>	<u><u>\$ 6,679</u></u>	<u><u>\$ 2,304</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Building Authority Bond Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 2,203	\$ 2,203	\$ 2,203	\$ -
<b>Resources (Inflows)</b>				
Transfer from other funds	70,646	70,646	70,644	(2)
<b>Charges to Appropriations (Outflows)</b>				
Debt service:				
Principal	40,000	40,000	40,000	-
Interest	30,346	30,346	30,345	(1)
Other	<u>300</u>	<u>300</u>	<u>275</u>	<u>25</u>
Total charges to appropriations	<u>70,646</u>	<u>70,646</u>	<u>70,620</u>	<u>24</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 2,203</b></u>	<u><b>\$ 2,203</b></u>	<u><b>\$ 2,227</b></u>	<u><b>\$ 24</b></u>

# City of Charlotte, Michigan

## Other Supplemental Information

### Budgetary Comparison Schedule - Michigan Transportation Bond Fund

### Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows)</b>				
Transfer from other funds	70,190	70,190	70,188	(2)
<b>Charges to Appropriations (Outflows)</b>				
Debt service:				
Principal	35,000	35,000	35,000	-
Interest	34,890	34,890	34,890	-
Other	<u>300</u>	<u>300</u>	<u>275</u>	<u>25</u>
Total charges to appropriations	<u>70,190</u>	<u>70,190</u>	<u>70,165</u>	<u>25</u>
<b>Fund Balance - End of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23</u></u>	<u><u>\$ 23</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Building Fund (DPW) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 4,001	\$ 4,001	\$ 4,001	\$ -
<b>Charges to Appropriations (Outflows)</b>				
Community planning and development	4,000	4,000	4,001	(1)
<b>Fund Balance</b> - End of year	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ (1)</u>

# City of Charlotte, Michigan

## Other Supplemental Information Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>Assets - Cash</b>	<b><u>\$ 8,800</u></b>	<b><u>\$ 8,877,318</u></b>	<b><u>\$ 8,841,523</u></b>	<b><u>\$ 44,595</u></b>
<b>Liabilities</b>				
Accrued and other liabilities	\$ 8,311	\$ -	\$ 3,311	\$ 5,000
Due to other governmental units	<u>489</u>	<u>8,877,318</u>	<u>8,838,212</u>	<u>39,595</u>
Total liabilities	<b><u>\$ 8,800</u></b>	<b><u>\$ 8,877,318</u></b>	<b><u>\$ 8,841,523</u></b>	<b><u>\$ 44,595</u></b>

## **Statistical Section**

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## City of Charlotte, Michigan

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Fiscal Year	General Government	Public Safety	Public Works	Community Services	Recreation and Culture
1995	\$ 138,021	\$ 1,715,545	\$ 964,158	\$ 104,494	\$ 558,914
1996	131,634	1,723,899	925,711	84,471	318,913
1997	107,865	1,618,522	1,227,473	167,431	236,810
1998	127,266	1,777,820	979,094	299,547	258,315
1999	48,662	1,928,725	1,450,330	219,134	111,776
2000	109,644	2,158,711	1,840,441	238,330	-
2001	88,372	2,387,105	1,580,324	195,282	-
2002	108,591	2,378,798	2,131,877	207,478	-
2003	792,475	2,378,867	1,971,359	337,481	-
2004	536,428	2,560,284	1,276,872	-	753,063



# City of Charlotte, Michigan

## General Governmental Expenditures by Function Last Ten Fiscal Years

Community and Economic Development	Debt Service	Total
\$ -	\$ 147,282	\$ 3,628,414
-	153,444	3,338,072
-	145,871	3,503,972
324,653	83,018	3,849,713
654,614	48,574	4,461,815
83,154	46,584	4,476,864
38,875	35,722	4,325,680
19,242	101,158	4,947,144
39,382	163,531	5,683,095
193,540	140,235	5,460,422

## City of Charlotte, Michigan

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Fiscal Year	Property Taxes/ Assessments	Licenses and Permits	Inter- Governmental	Charges for Services
1995	\$ 1,770,880	\$ 38,517	\$ 1,179,335	\$ 261,085
1996	1,830,320	18,687	1,202,755	263,358
1997	1,945,304	24,232	1,326,539	295,199
1998	1,897,731	58,102	1,715,489	274,746
1999	1,947,526	40,342	1,972,494	386,857
2000	1,888,394	92,777	1,616,892	266,113
2001	2,063,429	96,282	1,555,958	218,713
2002	2,341,020	66,440	1,589,887	253,258
2003	2,473,208	70,640	1,642,310	231,706
2004	2,533,748	124,241	1,725,871	273,456

# City of Charlotte, Michigan

## General Governmental Revenue by Source Last Ten Fiscal Years

Fines and Forfeitures		Other Revenue		Total	
\$	22,879	\$	95,474	\$	3,368,170
	29,259		99,046		3,443,425
	48,982		136,106		3,776,362
	51,813		171,626		4,169,507
	56,216		310,428		4,713,863
	33,421		211,428		4,109,025
	42,392		207,958		4,184,732
	29,039		205,655		4,485,299
	29,270		812,942		5,260,076
	33,293		256,123		4,946,732

## City of Charlotte, Michigan

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(1) Tax Year	(2) Total Tax Levy	Current Tax Collections	Percent of Current Tax Collected	(3) Delinquent Tax Collections
1994	\$ 1,510,369	\$ 1,443,994	95.61	\$ 66,080
1995	1,586,950	1,520,920	95.84	66,000
1996	1,660,029	1,611,322	97.07	48,704
1997	1,773,835	1,712,409	96.58	60,073
1998	1,815,328	1,745,565	96.16	67,222
1999	1,857,584	1,776,857	95.65	73,748
2000	2,009,531	1,881,107	93.61	86,106
2001	2,203,973	2,093,338	94.98	56,723
2002	2,288,957	2,178,869	95.19	96,088
2003	2,537,236	2,438,280	96.10	87,553

(1) Property taxes are levied July 1 of the current fiscal year based on assessed property values as of the preceding December 31. Unpaid property taxes become delinquent as of September 1 of the current fiscal year. The City's delinquent real property taxes are purchased by the Eaton County Delinquent Tax Revolving Fund. Uncollected personal property taxes must be collected by the City Treasurer.

(2) Includes industrial facility tax.

(3) Includes settlement from Eaton County Delinquent Tax Revolving Fund for purchase of delinquent real property taxes.

SOURCE: Treasurer, City of Charlotte

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**Property Tax Data**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
\$ 1,510,074	99.98
1,586,920	100.00
1,660,026	100.00
1,772,482	99.96
1,812,787	99.86
1,850,605	99.62
1,967,213	97.89
2,150,061	97.55
2,274,957	99.39
2,525,833	99.55

# City of Charlotte, Michigan

(1)	Real Property (2)		Personal Property (2)		
Fiscal Year Ended June 30	Estimated Actual Value	Taxable Value*	Estimated Actual Value	Taxable Value*	Ratio
1995	\$ 183,441,200	\$ 91,720,600	\$ 24,138,000	\$ 12,069,000	50.0%
1996	195,311,600	95,722,500	26,930,800	13,465,400	49.1%
1997	205,790,000	99,517,800	29,048,200	14,524,100	48.6%
1998	234,165,200	104,679,100	31,654,600	15,827,300	45.3%
1999	238,029,400	108,079,100	33,761,000	16,880,500	46.0%
2000	253,534,400	112,683,300	35,698,200	17,849,100	44.5%
2001	279,434,000	120,813,300	32,477,800	16,238,900	43.9%
2002	308,189,400	133,757,600	39,226,000	19,604,500	44.1%
2003	347,671,600	148,660,400	41,232,200	20,600,100	43.5%
2004	426,285,800	164,277,800	38,190,400	19,095,200	39.5%

(1) Property taxes are levied July 1 of the succeeding fiscal year based on assessed values as of December 31.

(2) Excludes properties subject to industrial facility tax exemptions.

(3) Per \$1,000 of equalized value.

(4) Passage of Proposal A in 1994 reduced operating millage for Charlotte Public Schools to 18 mills for non-homestead properties. Both homestead and non-homestead properties are subject to the state education tax of six mills as well as any debt service levy.

\* Taxable values prior to 1995 were assessed at 50 percent of true cash value. Beginning with the 1995 assessments, the taxable value is limited by the lesser of growth of inflation, growth in true cash value, or five percent.

SOURCES: Assessor, City of Charlotte and Annual Apportionment Report of Eaton County

**Property Tax Data**  
**Property Values and Millage Rates**  
**Last Ten Fiscal Years**

Millage Rates (3)						Totals (4)	
City	County	Charlotte	State	Eaton	District	Homestead	Non-
		Public	Education	Intermediate			
		Schools	Tax	School	Library		Homestead
16.0090	7.5121	20.7000	6.0000	4.1005	-	36.3216	68.1296
15.8590	7.5621	20.4000	6.0000	4.1005	-	35.9216	54.3216
15.7590	7.5611	20.2000	6.0000	4.1005	-	35.6206	53.9216
14.7870	7.4921	20.5000	6.0000	6.1977	-	36.9768	53.6206
14.5270	7.4921	20.5000	6.0000	6.1913	0.9000	37.6104	54.9768
13.6270	7.4921	25.0000	6.0000	4.0638	0.8982	39.0811	55.6104
13.6354	7.4921	25.0000	6.0000	4.0311	0.8916	39.0502	57.0502
13.6423	7.3935	25.0000	6.0000	3.9858	0.8847	38.9063	56.9063
13.6462	7.4167	25.5504	6.0000	3.9704	0.8808	39.5041	57.4645
13.6481	7.3876	25.5900	5.0000	3.9457	0.8789	38.4503	56.4503

# City of Charlotte, Michigan

## Principal Taxpayers June 30, 2004

#	Principal Taxpayer	Type of Business	2003 Taxable Value	Percent of Total Taxable Value
1	Meijers Corporation	Retail	\$ 5,907,000	3.22
2	Walmart Real Estate Business	Retail	4,122,600	2.25
3	Consumers Energy	Utility	3,450,100	1.88
4	Owens-Illinois Glass Container	Manufacturing	3,259,800	1.78
5	Philips Products, Inc.	Manufacturing	2,766,000	1.51
6	Spartan Motors, Inc.	Manufacturing	2,583,500	1.41
7	Legacy Parke Partners LLC	Leasing	2,104,700	1.15
8	Wolin Products, Inc	Manufacturing	1,887,100	1.03
9	K Mart Corporation	Retail	1,548,900	0.84
10	IIII Group, LLC	Leasing	1,367,300	0.75
			<b><u>\$ 28,997,000</u></b>	

Excludes industrial facility tax values.

SOURCE: Treasurer, City of Charlotte



# City of Charlotte, Michigan

## Computation of Legal Debt Margin June 30, 2004

State Equalized Value subject to property tax	<u>\$ 216,526,900</u>
Legal debt margin - 10% (1)	\$ 21,652,690
Debt applicable to limitation:	
Gross bonded debt of City	<u>10,292,983</u>
Total debt applicable to limitation	<u>10,292,983</u>
Legal debt margin	<u>\$ 11,359,707</u>

(1) Article VII, Paragraph II of the Constitution of the State of Michigan of 1963, as amended.

## Computation of Direct and Overlapping Bonded Debt

	Debt Outstanding (1)	Percent Applicable to City	Amount Applicable to City
Direct - City-issued bonded debt	\$ 1,572,983	100.00	\$ 1,572,983
Overlapping:			
Eaton County	14,999,976	6.43	964,498
Eaton Intermediate School District	2,055,000	8.54	175,497
Charlotte Public Schools	<u>62,162,198</u>	42.28	<u>26,282,177</u>
Total overlapping	<u>79,217,174</u>		<u>27,422,173</u>
Total	<u>\$ 80,790,157</u>		<u>\$ 28,995,156</u>

(1) Excludes self-supporting debt.

SOURCE: Municipal Advisory Council of Michigan

# City of Charlotte, Michigan

## Ratio of Debt to Taxable Value and Debt Per Capita June 30, 2004

	Long-Term Debt (I)	Less Debt Service Fund	Less Self- Supporting Portions	Net Debt	Taxable Value (Thousands)	Ratio of Net Debt to Taxable Value (%)	Population	Net Debt Per Capita
1995	\$ 300,000	\$ 13,573	\$ -	\$ 286,427	\$ 103,789,600	0.28%	8,083	35
1996	175,000	18,320	-	156,680	109,187,900	0.14%	8,083	19
1997	2,290,000	25,479	2,240,000	24,521	114,041,900	0.02%	8,083	3
1998	2,130,000	5,581	2,130,000	(5,581)	120,506,400	0.00%	7,841	(1)
1999	2,015,000	5,721	2,015,000	-	124,959,600	0.00%	7,841	-
2000	10,050,000	-	10,050,000	-	130,532,400	0.00%	7,841	-
2001	10,475,000	-	9,740,000	735,000	137,052,200	0.54%	8,389	88
2002	10,895,000	-	9,420,000	1,475,000	153,362,100	0.96%	8,389	176
2003	10,485,000	-	9,080,000	1,405,000	169,260,500	0.83%	8,389	167
2004	10,292,983	-	8,720,000	1,572,983	183,373,000	0.86%	8,389	188

(I) Excludes component units.

## Ratio of Governmental Fund Debt Service to Total Expenditures

	Debt Service	Total Governmental Expenditures	Percent of Debt Service to Expenditures
1995	\$ 147,282	\$ 3,628,414	2.82
1996	153,444	3,338,072	3.02
1997	145,871	3,503,972	2.76
1998	65,624	3,849,713	2.19
1999	48,574	4,461,815	1.09
2000	46,584	4,476,864	1.04
2001	35,722	4,325,680	0.83
2002	101,158	4,947,144	2.04
2003	163,531	5,683,095	2.88
2004	140,235	5,460,422	2.57

# City of Charlotte, Michigan

## Revenue Bond Coverage June 30, 2004

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)	Coverage
				Total	
1995	\$ 1,226,746	\$ 1,070,831	\$ 155,915	\$ -	0.00%
1996	1,471,550	1,073,443	398,107	-	0.00%
1997	1,581,433	1,142,460	438,973	136,760	320.98%
1998	1,471,560	1,215,395	256,165	228,026	112.34%
1999	1,718,373	1,367,442	350,931	226,389	155.01%
2000	2,726,734	1,619,150	1,107,584	565,020	196.03%
2001	3,216,643	1,447,704	1,768,939	833,723	212.17%
2002	3,125,906	1,599,276	1,526,630	793,405	192.41%
2003	2,860,608	1,641,493	1,219,115	830,265	146.83%
2004	2,906,173	1,739,638	1,166,535	830,881	140.40%

(1) Includes investment income.

(2) Excludes depreciation expense.

(3) Includes principal and interest of Revenue Bonds and County Bond Obligation recorded in the Water Supply and Sewage Disposal System Fund.

## City of Charlotte, Michigan

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As of 12/31	Commercial Construction		Residential Construction		Additions and Alterations	
	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value
1994	32	\$ 2,246,105	17	\$ 1,240,860	241	\$ 489,165
1995	33	920,130	10	937,943	172	415,675
1996	18	687,875	15	1,254,927	242	747,615
1997	25	506,235	12	991,890	235	602,021
1998	38	2,947,814	27	1,918,000	278	775,434
1999	39	10,857,400	27	1,736,000	285	821,372
2000	31	6,891,541	46	2,468,800	318	1,002,209
2001	38	7,253,400	50	2,864,945	329	1,026,774
2002	18	233,100	40	2,999,906	292	949,297
2003	27	1,919,400	39	3,510,000	273	758,332

SOURCES: Building Inspection Department, City of Charlotte  
Assessor, City of Charlotte

**Miscellaneous Statistics**  
**Construction and Property Values**  
**June 30, 2004**

State Equalized Property Values by Use

Commercial	Industrial	Residential	Personal	Total
\$ 21,589,500	\$ 7,232,200	\$ 62,898,900	\$ 12,069,000	\$ 103,789,600
22,409,700	7,694,000	67,552,100	13,465,400	111,121,200
22,939,800	7,932,200	72,023,000	14,524,100	117,419,100
23,847,000	8,276,800	72,555,300	15,827,300	120,506,400
24,798,700	8,746,700	85,469,300	16,880,500	135,895,200
27,891,800	9,223,700	89,651,700	17,849,100	144,616,300
31,983,700	9,987,800	97,745,500	16,238,900	155,955,900
38,902,400	11,503,600	103,688,700	19,613,000	173,707,700
48,556,800	11,571,100	113,707,900	20,616,100	194,451,900
56,161,000	12,609,000	127,859,400	19,897,500	216,526,900

# City of Charlotte, Michigan

## Miscellaneous Statistics Demographic Statistics

Year	Population	School Enrollment	Unemployment Rate
1994	8,083 (2)	3,456	6.8%
1995	8,083 (2)	3,442	4.7%
1996	8,083 (2)	3,456	4.6%
1997	8,083 (2)	3,430	3.7%
1998	7,841 (1)	3,423	4.2%
1999	7,841 (1)	3,331	3.3%
2000	8,389	3,304	3.2%
2001	8,389 (3)	3,313	3.2%
2002	8,389 (3)	3,325	3.2%
2003	8,389 (3)	3,315	4.0%
2004	8,389 (3)	3,350	4.7%

	Federal Census Year			
	2000	1990	1980	1970
Population	8,389	8,083	8,251	8,244

- (1) Estimate.
- (2) Estimates not available, amount from 1990 census used.
- (3) Estimates not available, amount from 2000 census used.

### SOURCES:

Population - U.S. Census Bureau  
 School Enrollment - Charlotte Public Schools  
 Unemployment Rate - Michigan Employment Security Commission

# City of Charlotte, Michigan

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## Miscellaneous Statistics Other Statistics June 30, 2004

Date of Incorporation	1871
Form of Government	Council/Manager
Number of Employees (Excluding Police and Fire)	
Full-time	33
Part-time	8
Seasonal	5
Area in Square Miles	5.75
Election Data	November - 2003 General City Election
Number of registered voters	5,579
Number of ballots cast	1,206
Percentage of participating voters	21.62%
City of Charlotte Facilities and Services:	
Miles of streets:	
Major streets	11.45
Local streets	26.05
Number of street lights:	
Mercury vapor	353
High pressure sodium	120
Culture and recreation:	
Parks (developed)	5
Parks (undeveloped)	1
Park acreage (developed)	180
Park acreage (undeveloped)	19
Swimming pools (school-owned)	2
Tennis courts	4
Playgrounds (city-owned)	5
Playgrounds (school-owned)	5
Slide and swings only (city-owned)	22
Fire protection:	
Number of stations	1
Number of fire personnel and officers	
Full-time	6
Part-time	1
Volunteers	24
Number of calls answered	483
Number of inspections conducted	153

# City of Charlotte, Michigan

## Miscellaneous Statistics Other Statistics (Continued) June 30, 2004

### City of Charlotte Facilities and Services (Continued):

#### Police protection:

Number of stations	1
Number of police personnel and officers:	
Full-time officers	19
Full-time clerical	1
Part-time clerical	1
Number of patrol units	5
Administration vehicle	1
Investigations vehicle	1
Support vehicles	5
Total incidents reported (calendar year 2003)	11,786
Physical arrests	775
Traffic violations	1,253
Parking violations	867
Uniform Crime Reporting (Part I and II)	3,204

#### Wastewater System:

Miles of sanitary sewers	41.0
Miles of storm sewers	30.8
Number of treatment plants	1
Number of service connections:	
Combined water and sewer	3129
Water only	12
Daily average treatment (in gallons)	964,450
Maximum daily capacity of treatment plant (in gallons)	1,800,000

#### Water System:

Miles of water mains	51.8
Number of service connections:	
Combined water and sewer	3,143
Water only	471
Number of fire hydrants	429
Daily average consumption (in gallons)	967,806
Maximum daily capacity of water plant (in gallons)	2,330,900
Storage tanks (500,000 gallon capacity)	1,150,000

#### Facilities and services not included in the primary government:

##### Cable Television System:

Miles of service	69
Number of satellite receiving stations	-

##### Education:

Number of elementary schools	4
Number of elementary school instructors	77
Number of secondary schools	2
Number of secondary school instructors	126

#### Facilities and services not included in reporting entity:

##### Hospitals:

Number of hospitals	1
Number of patient beds	45



# City of Charlotte, Michigan

## Miscellaneous Statistics Salaries and Surety Bonds of Principal Officials

<u>Title of Official</u>	<u>Name</u>	<u>Annual Salary</u>	<u>Amount of Surety Bond</u>
City Manager	Dennis Stark	\$ 75,705	\$ 25,000
Fire Chief	Kevin Fullerton	\$ 66,463	\$ 25,000
Assessor (Contract)	Randy Jewell	\$ 29,956	\$ 25,000
Clerk	Deborah Granger	\$ 60,116	\$ 25,000
Finance Director	Christine Mossner	\$ 63,994	\$ 25,000
DPW Director	Amy Schoonover	\$ 64,890	\$ 25,000
Police Chief	Bill Callahan	\$ 61,919	\$ 25,000

Source: Clerk, City of Charlotte

# **City of Charlotte, Michigan**

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**Report to the City Council**

**June 30, 2004**

# **City of Charlotte, Michigan**

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## **Report to the City Council**

**June 30, 2004**

To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

We recently completed our audit of the financial statements of the City of Charlotte, Michigan for the year ended June 30, 2004. During the performance of our audit, we noted items related to the internal control systems and operations as a whole that we would like to bring to your attention. All items are presented for your consideration on attachments as outlined below:

<u>TITLE</u>	<u>PAGE</u>
<b>Recommendations</b>	
Internal Controls	3-4
Treasurer Assistance	4
Water and Sewer Billings	4-5
Act 51 Reporting	5
Retiree Health Care Benefits	6
<b>Other Information</b>	
Internet Security	7
<b>Legislative Issues</b>	
State Shared Revenue	8
Property Assessment Cap	9-10
Municipal Finance Act Revisions - Reminder	10
Transportation Matters	10
Property Tax Matters	11
Refuse Disposal	11
Health Care Costs	11

To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

We appreciate the opportunity to be of service to the City of Charlotte. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

*Plante & Moran, PLLC*

September 27, 2004

## **Recommendations**

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# **City of Charlotte, Michigan**

## **Recommendations**

### **June 30, 2004**

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#### **Internal Controls**

Over a relatively short period of time, there have been several documented large fraud related cases in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as their board/council members, regarding their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations (small and large) have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity. Through many recent conversations with our clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure which includes sound accounting and internal control policies and procedures. The items below were identified as areas for potential improvement in the City's internal control procedures:

- One of the primary internal control measures an organization can have is adequate segregation of duties related to its cash cycles. This typically includes a separation of duties between check writing capabilities, access to the general ledger, and preparation of the bank reconciliations. The City's bank reconciliations are currently being performed by an individual who also has access to the general ledger, with no review performed of these activities. The review of bank reconciliations is an important internal control which helps to ensure that the City's cash balances are accurately reflected. We strongly recommend that someone other than the preparer of these reconciliations review them on a regular basis.
- With the continued move to electronic banking, it has become more important than ever to include written internal controls and policies related to wire transfers. Currently, the City does not have a written policy in place associated with these types of transactions. We recommend a formal policy be adopted which clearly documents the controls and procedures required when wire transfers are initiated.
- General journal entries are periodically required to reflect transactions that occur outside the City's normal accounting processes. Currently, these types of entries are being made with no approval process in place. Periodic review of these entries by someone other than the preparer will help ensure accuracy of transactions, and would serve as an internal control measure against potential misappropriation.

# **City of Charlotte, Michigan**

## **Recommendations**

### **June 30, 2004**

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#### **Internal Controls (Continued)**

- It is also our understanding that the City will again be utilizing credit cards for designated personnel beginning in fiscal year 2005. As with the City's other expenditure processes, written internal controls and policies would be beneficial in overseeing the use of these tools. We suggest a formal policy be adopted for the use of credit cards which outlines appropriate expenditures, monetary limits, and approval processes for safeguarding of the City's assets.

#### **Treasurer Assistance**

The continued focus on fraud not only requires an evaluation of an organization's internal control structure, it also necessitates awareness by management of its fiduciary responsibilities and susceptibility to individual accountability. One of the outcomes associated with the various fraud cases has been a new auditing standard, *Statement on Auditing Standards No. 99*, which requires auditors to inquire of management regarding their knowledge of fraud, their understanding of fraud risk factors, controls established to mitigate those risks, and how management has communicated its views on business practices and ethical behavior to its employees. Simply "serving your community" is no longer adequate. Management personnel, including those in governmental and not-for-profit positions, are now being held individually accountable for the actions of the whole. As a result, it is imperative that management have a strong understanding of the decisions and activities of the organization it serves.

We understand that the City's Treasurer currently is not included in various meetings that involve potential financial ramifications to the City. Given the current climate, and the City's need for a strong understanding of financial issues, we recommend that the Treasurer be included in meetings when discussions involve issues that have a financial impact to the City. This will serve as an added resource so the appropriate financial issues can be addressed.

#### **Water and Sewer Billings**

Part of our audit procedures include performing various analytical tests on water and sewer revenue, including whether the amounts billed in a given month are reasonable from year to year. In the past, these procedures identified unusual variances that were challenging to justify. Following the City's comprehensive review of its water and sewer billings, it appears that the reasons for many of these variances have been identified and corrected. We would like to congratulate the City on its proactive approach in resolving these discrepancies.



# **City of Charlotte, Michigan**

## **Recommendations**

### **June 30, 2004**

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#### **Water and Sewer Billings (Continued)**

Moving forward, and in an effort to identify and correct errors as soon as possible, we recommend a three-step reconciliation process be performed on at least a quarterly basis. First, a calculation of the revenue per units sold should be completed for comparison with an expected amount based upon the City's current rates. Secondly, a reconciliation of the monthly billing register totals to the general ledger should be performed for identification of potential discrepancies. Finally, a comparison of the monthly billing registers from the current year to the prior year should be performed to assist in identifying billing errors, changes in usage, and potential leakages.

#### **Act 51 Reporting**

An annual report is required to be filed with the State of Michigan for reporting of activities associated with Act 51, which provides revenue to the City for major and local street construction. This report ensures that the City is in compliance with all components of the Act, including amounts transferable from one fund to the other, locally generated revenue requirements, and limits on the amount of administrative costs that can be charged to each of the funds.

In reviewing the report from the prior year, we noted that the line items reported do not correspond to those in the financial statements as would be expected. We recommend that the City review this Act, including the reporting process, to ensure that the City is in compliance with all requirements.

# **City of Charlotte, Michigan**

## **Recommendations**

### **June 30, 2004**

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#### **Retiree Health Care Benefits**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

## **Other Information**

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**City of Charlotte, Michigan**  
**Other Information**  
**June 30, 2004**

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**Internet Security**

With increased use of the Internet, protection of the City's assets is becoming an important concern. Simply stated, if anyone in the City can obtain access to the Internet, they could gain access to the City's network, server, software, and data. Improvements in technology provide cities several protective measures including firewalls, filtering, router security, acceptable use policies, and an aggressive password control process and system. Individual circumstances will dictate the level of appropriate security to mitigate the impact from inadvertent access of inappropriate information by staff, citizens, hackers, and malicious outsiders. The City should continue to thoroughly review their access points, risk, and exposure to ensure the continued secured operation of the City's network and systems.

## **Legislative Issues**

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# City of Charlotte, Michigan

## Legislative Issues

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### State Shared Revenue

State shared revenue accounts for approximately 22.5 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

State Fiscal Year	Constitutional	Statutory	Total	Decrease from 2000
2000	\$544,584	\$448,856	\$993,440	-
2001	\$537,307	\$535,608	\$1,072,915	N/A
2002	\$546,176	\$496,055	\$1,042,231	N/A
2003	\$574,956	\$446,427	\$1,021,383	N/A
2004	\$574,593	\$343,373	\$917,966	7.6%

We will continue to update the City as developments occur.

# City of Charlotte, Michigan

## Legislative Issues

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### Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation.

Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

# **City of Charlotte, Michigan**

## **Legislative Issues**

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### **Property Assessment Cap (Continued)**

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 16.0303 mills even though City Charter would allow the City to levy 16.2000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

### **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2004, and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

### **Transportation Matters**

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement, or reconstruction of existing bridges. It is estimated that over the next 10 years approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well as seven, five-member regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced, which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.



# **City of Charlotte, Michigan**

## **Legislative Issues**

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### **Property Tax Matters**

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as “homestead” property. The bill also proposes to not allow the taxable value of property to “uncap” when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

During 2004, the Legislature amended the Renaissance Zone Act allowing the Michigan Strategic Fund to designate up to 20 tool and die renaissance recovery zones across the State. To qualify for a recovery zone designation, a parcel of property must be leased or owned by a qualified tool and die business and used primarily for tool and die business operations. The taxes that companies located in a recovery zone would not pay include: single business tax, 6-mill state education tax, local personal property tax, and local income tax.

### **Refuse Disposal**

SB 721 was introduced which would assess a \$3 per ton tipping fee at landfills which could increase the cost of refuse disposal for local governments. The monies generated from this legislation are intended to be used by the State for recycling.

### **Health Care Costs**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State’s prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.